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PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT THE GLOBAL LEVEL IN THE FIELD OF ACCOUNTING AND REPORTING BY TRANSNATIONAL CORPORATIONS

Review of important current developments at the global level in the field of accounting and reporting by transnational corporations

Report of the Secretary-General

SUMMARY

The purpose of this report is to review developments which promote the harmonization of accounting standards world wide and the comparability of financial statements. Vigorous efforts are under way to reduce the options in international standards and to increase their use by the regulators of securities markets and international trade. At the same time, authorities in Central and Eastern Europe are rewriting their commercial legislation, including accounting regulations, to promote the development of market economies. Thus, one could optimistically expect significant gains in harmonization during the 1990s. The report also examines certain problem areas where appropriate standards have yet to be formulated: new financial instruments, intangibles and green accounting. Lastly, the activities of international and regional bodies active in the field are summarized.

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INTRODUCTION

1. This global issues report is divided into three sections. In the first section efforts to harmonize accounting standards are discussed. Among them are the comparability project of the International Accounting Standards Committee and the creation of two new groups to study capital and harmonization issues and new commercial legislation in Central and Eastern Europe. In the second section, developments in certain key issues in international accounting are examined, including new financial instruments, intangibles and environmental accounting. In the last section the activities of international and regional organizations active in the field of harmonization are reviewed.

I. MAJOR EFFORTS TO HARMONIZE ACCOUNTING AND REPORTING STANDARDS

A. International Accounting Standards Committee ED 32

2. At the present moment it is apparent that there is a certain momentum behind efforts to improve the comparability of financial statements. The International Accounting Standards Committee (IASC) and the International Organization of Securities and Exchange Commissions (IOSCO) have joined forces to reduce the options in international accounting standards and thus to increase the transparency of financial statements. Put more accurately, the IASC is under pressure from regulators who want comparable and unambiguous rules for the preparers of financial statements. They see this as a way to promote cross-border security offerings and the globalization of capital markets. At the same time the European Commission has decided to participate on a regular basis in the activities of IASC as one method of furthering its work on harmonization. In a last-minute development in the Uruguay Round, it was proposed that an accounting annex be added to the General Agreement on Trade and Services (GATS). Much of the initiative in promoting the annex was undertaken by the Federation des experts comptables europeens (FEE). The annex advocates mutual recognition agreements for accountants and auditors according to the guidelines of the International Federation of Accountants (IFAC). Furthermore, signatories would agree to use international standards for resolving disputes and would have to accept, for regulatory purposes, all financial statements prepared using such standards. The use of the standards would facilitate expansion of trade in accounting services by removing barriers caused by different national accounting requirements. At this time, it appears unlikely that there will be an accounting annex and that, if it should be added, it would contain only the mutual recognition requirement if and when GATS is concluded.

3. In addition, various national groups responsible for standard-setting are now giving more active support to the efforts of IASC. This is indeed a favourable development because the preservation of national practices has been identified by a number of experts as one of the main obstacles to harmonization (Choi, 1990; Walsh, 1990).

4. The IASC project, ED 32, Comparability of Financial Statements, is now over two years old and considerable progress has been made. ED 32 originally dealt with 29 accounting issues where proposals were made to eliminate a free choice of accounting methods and to identify a required or a preferred method (see the table). In some cases, however, ED 32 permitted the retention of more than one accounting treatment where one was identified as the "preferred" and the other as the "allowed alternative". ED 32 proposed originally that enterprises using the alternative treatment in their financial statements should reconcile their reported net income and shareholders' interest to those amounts determined using the preferred treatment.

5. IASC received over 160 comment letters on the proposals in ED 32 and they were virtually unanimous in supporting the objective of greater comparability of financial statements and, hence, the project and the exposure draft as a whole. After reviewing the comments, the IASC Board decided that 21 of the 29 proposals in ED 32 should be incorporated in revised standards; that three proposals (inventory costs, development costs and borrowing costs) should be re-exposed; and that five proposals should be deferred pending further work on the new financial instruments project (see the table).

6. Since a substantial number of the comment letters indicated disagreement with the proposed reconciliation requirement between preferred and alternative treatments, the Board dropped the requirement. In the summary of responses to ED 32 it is stated that "many respondents feel that this requirement would prove unduly burdensome or cause costs out of proportion to the likely benefit for users". However, no further indication is given as to the nature of the costs involved or evidence as to the extent to which costs outweigh the benefits. Some members of the Consultative Group of IASC have expressed their disappointment with the deletion since it lessens the impact of the project and it is certainly not going to help users better understand the accounts.

7. The Board later decided, that while it would not require a reconciliation, it would encourage enterprises to publish such a reconciliation as part of their financial statements. It would also support the efforts of IOSCO to encourage individual securities regulators to require foreign issuers to reconcile their financial statements, where a choice remains, to the benchmark treatments in International Accounting Standards. If IOSCO is going to ultimately require reconciliations to the IASC benchmark treatment, they could be required in the first place. Foreign companies listed in the United States are currently required to provide reconciliations to United States GAAP. Many foreign issuers are asked, on a case-by-case basis, to provide reconciliations in European markets. In other words, reconciliation is already practised. Furthermore, it is a widespread practice of transnational corporations to reconcile the financial statements of foreign affiliates or any other enterprise in which they are interested.

8. The Board also replaced the term "preferred" by the term "benchmark" since it more closely reflected the Board's intention of identifying a point of reference when making its choice among alternatives.

Table. Proposals for the comparability of financial statements

IAS	Issues	Proposals			Status
		Preferred	Alternative	Eliminated	12/90
2	Assignment of cost to inventories	FIFO and Weighted Average Cost formulas		Base Stock formula	Re-exposed
8	Correction of fundamental errors and omissions and adjustments resulting from accounting policy changes	Adjust opening retained earnings Amend comparative information	Include in income of the current period Present amended pro forma comparative information		Incorporated
9	Recognition of development costs		Recognize as assets when they meet specified criteria		Re-exposed
11	Recognition of revenue and net income on construction contracts	Percentage of completion method When the conditions for profit recognition are not met, recognize revenue to the extent of related costs		Completed contract method	Incorporated
16	Measurement of property, plant equipment	Measure at cost	Measure at revalued amounts		Incorporated

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IAS	Issues	Proposals			Status
		Preferred	Alternative	Eliminated	12/90
16	Measurement of property, plant and equipment adquired in exchange for another asset	Fair value for dissimilar assets acquired Net carrying amount of asset given up for similar assets acquired		Net carrying amount of asset given up for dissimilar assets acquired Fair value for similar assets acquired	Incorporated
16	Recognition of a revaluation increase relating to a revaluation decrease previously charged to income	Recognize in income of the current period		Recognize in share-holders' interests	Incorporated
17	Recognition of finance income on finance leases by a lessor	Net investment method for finance leases other than leveraged leases Net cash investment method for leveraged leases		Net cash investment method for finance leases other than leveraged leases Net investment method for leveraged leases	Deferred
18	Recognition of revenue on transactions involving the rendering of services	Percentage of completion method		Completed contract method	Incorporated
19	Determining the cost of retirement benefits	Accrued benefit valuation methods	Projected benefit valuation methods		Incorporated

IAS	Issues	Proposals			Status
		Preferred	Alternative	Eliminated	12/90
19	Use of projected salaries in determining the cost of retirement benefits	Incorporate an assumption about projected salaries		Do not incorporate an assumption about projected salaries	Incorporated
19	Recognition of past service costs, experience adjustments and the effects of changes in actuarial assumptions	Recognize systematically over a period approximating the average of the expected remaining working lives of participating employees		Recognize in income of the current period as they arise	Incorporated
21	Recognition of foreign exchange gains and losses on long-term monetary items	Recognize in income of the current period unless hedged		Defer and recognize in income of current and future periods	Incorporated
21	Recognition of foreign exchange losses on the acquisition of an asset that result from a severe devaluation against which there is no practical means of hedging	Recognize in income of the current period	Recognize as part of cost of the asset		Incorporated
21	Exchange rate for use in translating income statement items of foreign entities	Exchange rates at the dates of the transactions (or average rate)		Closing exchange rates	Incorporated

IAS	Issues	Proposals			Status
		Preferred	Alternative	Eliminated	12/90
21	Treatment of differences on income statement items translated at other than the closing rate	Recognize in share-holders' interests		Recognize in income of the current period	Incorporated
21	Subsidiaries operating in hyperinflationary economies	Restate financial statements in accordance with IAS, Financial Reporting in Hyper-inflationary Economies, before translation		Translate financial statements without prior restatement	Incorporated
21	Treatment of exchange differences on foreign operations integral to those of the parent	Recognize in income of the period unless hedged	Recognize as part of the cost of an asset when they result from a severe devaluation against which there is no practical means of hedging	Defer and recognize in income of current and future periods	Incorporated
22	Accounting for business combinations	Purchase for acquisitions Pooling of interests method for uniting of interests		Purchase method for uniting of interests	Incorporated

IAS	Issues	Proposals			Status
		Preferred	Alternative	Eliminated	12/90
22	Treatment of positive goodwill	Recognize as an asset and amortize to income on a systematic basis over its useful life.		Adjust immediately to shareholders' interests	Incorporated
22	Treatment of negative goodwill	Allocate over individual non-monetary assets. After such an allocation, if negative goodwill remains, treat as deferred income and recognize on a systematic basis as for positive goodwill	Treat as deferred income and recognize in income on a systematic basis as for positive goodwill	Adjust immediately to shareholders' interests	Incorporated
22	Measurement of minority interest arising on a business combination	Measure at pre-acquisition carrying amounts	Measure at post-acquisition fair values		Incorporated
23	Recognition of borrowing costs		Recognize as part of the cost of an asset if it takes a substantial period of time to get it ready for its intended use or sale		Re-exposed

IAS	Issues	Proposals			Status
		Preferred	Alternative	Eliminated	12/90
25	Measurement of long-term investments	Measure at cost	Measure at revalued amounts		Deferred
25	Measurement of marketable equity securities held as long-term investments	Measure at cost recognizing declines in value that are other than temporary on an individual investment basis	Measure at revalued amounts	Measure at the lower of cost and market value on a portfolio basis	Deferred
25	Management of investment properties	Measure at cost with depreciation	Measure at revalued amounts	Measure at cost without depreciation	Deferred
25	Measurement of current investments	Measure at market value	Measure at the lower of cost and market value on an individual investment basis	Measure at the lower of cost and market value on a portfolio basis	Deferred
25	Recognition of increases and decreases in market values of current investments	Recognize in income of the current period		Recognize in revaluation surplus	Deferred
25	Recognition of a realized gain previously recognized in revaluation surplus	Transfer to retained earnings		Recognize in income of the current period	Deferred

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9. The Board recognized it was both impossible and inappropriate to remove the choice between historical cost and revaluation-based carrying amounts for property, plant and equipment and some investments. Thus the tension between historical cost and current value base systems continues. This leads to some inconsistencies and difficulties. The Consultative Group wondered whether the Board should not adopt a more systematic, positive, and progressive approach whereby it would require historical cost as the preferred treatment but permit a current valuation approach as an alternative wherever appropriate subject, as a matter of principle, to a reconciliation to historical costs. This has already been done in the EC Fourth Directive. Such an approach would spur evolution towards improved practice and would be more informative for users. In this context it is unfortunate that IASC is dropping the LIFO method for valuing inventories since it is consistent with the current valuation approach. Another controversial issue, accounting for goodwill, will be discussed in a subsequent section.

10. IASC is also undertaking an "improvements" project to ensure that its standards are sufficiently detailed and complete and contain adequate disclosure requirements to meet the needs of international capital markets and the international business community. Among the improvements envisaged are:

(a) Begin each revised standard with a clear statement of its objectives;

(b) Conform the terminology in each standard to the conceptual framework;

(c) Ensure that the content of each standard is consistent with other standards; and

(d) Standardize the definitions of terms and develop a glossary of terms.

B. International capital markets group

11. The Federation internationale des bourses de valeurs, the International Federation of Accountants, and the International Bar Association Section on Business Law have agreed to co-operate with each other in studying aspects of the world capital markets. The three organizations were drawn together by the fact that each has an interest in the well-being of the world markets. Their co-operation will have the following purposes:

(a) To consider developments within their areas of concern in the world capital markets, proposals for regulation and in general matters which affect opportunities for transnational investment and transnational acquisition of capital;

(b) To promote investor confidence internationally and the enhancement of investor protection;

(c) To comment when they deem appropriate on their activities and conclusions; and

(d) To take other actions which they may think beneficial to their purposes.

12. The output of the group is intended to encourage public discussion of matters relating to the world capital markets from a private sector perspective.

13. The group is undertaking three trial projects:

(a) International accounting standards. The objective is to focus attention on the need for more comparability in financial statements. An initial goal is to obtain an appreciation of what the real barriers are to achieving harmonization among the principal commercial countries;

(b) International regulatory problems. The objective is to encourage discussion of possible solutions to the regulatory problems. Two papers have been produced: an inventory of regulatory issues; and an analysis of alternative solutions. A third paper which is intended to focus the discussions and recommendations is being prepared, and a discussion draft is available;

(c) International takeovers and business combinations. The objective is to direct attention to the effect present rules have on cross-border transactions. A paper has been prepared which compares the relevant legal and other regulations of the principal commercial countries and notes that some of the differences result from deep-seated national interests. An object of the paper is to encourage public discussion of the priorities involved. To what extent should the need to facilitate international capital flows be given precedence over the national interests which caused the differences?

C. Creation of a European accounting forum

14. The European Commission has decided to organize a European accounting forum in addition to its regular contact group in order to advise the Commission on future steps to improve the comparability of financial information.

15. National standard-setting bodies of member States, European organizations representing the main users and preparers of accounts and the European accounting profession have been invited to designate a member to sit on the forum. The forum will advise the Commission on technical solutions for accounting problems which have not yet been the subject of harmonization directives at the Community level and guide the Commission on the position to be defended in the discussions about harmonization of accounting standards at an international level. The first meeting of the forum will take place on 14 and 15 January 1991. On the agenda are: foreign currency translation, accounting for Government grants, and the relationship between the International Accounting Standards and the EC accounting directives.

D. Changes in commercial legislation in Central and Eastern Europe

16. Perhaps there has been no greater force for the harmonization of accounting practices than the opening up of Central and Eastern Europe to foreign direct investment. By and large, these countries are either modifying or canceling their existing commercial legislation (including accounting regulations) and new adopting ones suitable for market economies. In the transition, almost all countries have drafted and/or enacted new commercial legislation which contains company laws, foreign-direct-investment rules, accounting regulations, and privatization rules. All countries (with the exception of Albania) had previously enacted legislation promoting foreign direct investment, usually in the form of joint ventures. By October 1990, the total number of joint ventures and foreign direct investments exceeded 6,800. The present reforms go beyond joint ventures and apply to all forms of enterprises.

(a) Albania: Decree No. 7406 on the Protection of Foreign Investment in PSRA; Decree No. 7407 on the Economic Activity of Enterprises with the participation of Foreign Capital in PSRA, 31 July 1990;

(b) Bulgaria: Decree No. 56 Implementation of All Economic Activities, 9 January 1989;

(c) Czech & Slovak Federal Republic: Act No. 173, Act on Enterprises, 1988; amended April 1990;

(d) Hungary: Decree No.128/1972 on Economic Associations with Foreign Participation; Act VI 1988 on Economic Associations (Company Law); Act XXIV 1988 on Investments of Foreigners; Act XIII 1989 on Transformation of Business Organizations and Associations; Act VI 1990 on Securities and the Stock Exchange;

(e) Poland: Law of April 26 1986 on Foreign Direct Investment in state-owned enterprises, cooperatives, joint ventures; amended in November 1988;

(f) Romania: Decree No. 424 on the Operation of Joint Companies, 2 November 1972; superseded by Decree No. 96, 14 March 1990;

(g) USSR: Act No. 49 of the Council of Ministers on the Establishment of Joint Ventures, 13 January 1987; Presidential Decree on Foreign Investment in the USSR, 26 October 1990.

17. Most countries in Central and Eastern Europe intend to move to market economies by changing the system of ownership through privatization, freeing prices and eliminating government subsidies. Some of these reforms require substantial changes in the reform of the legal system. It is safe to say that any accounting reforms will take place through the cancellation of old regulations and the issuance of new laws. The current accounting regulations served the objectives of the centrally planned economy by ensuring control, monitoring plan realization and protecting the means of production. They required a high degree of standardization. Furthermore, financial accounting was a part of the economic

information system and financial statements were for the use of government authorities. New accounting rules must meet the new needs of the main users. The transition to a market economy requires the modernization of accounting practices. Without a proper accounting system, enterprise managers, as well as investors and the public, are in no position to evaluate business performance. The development of an accounting system for a market economy is, therefore, one of the major tasks in the transition process. Many of these countries are planning to use the EC directives as a starting point for their reforms since, as one Eastern official stated, they represent the lowest common denominator. However, European directives do not provide for a complete set of accounting standards and will have to be supplemented.

18. At the same time Eastern officials are reluctant to abolish certain advantages of their system such as the link between micro information (enterprise accounts) and macro information (national accounts). The uniform system of accounting served many government departments: the planning office, finance ministry, national bank and statistical office. The central statistical offices used enterprise data from the balance sheets to calculate net material product. Therefore, some are considering adopting western uniform accounts such as the French plan comptable or are modernizing their chart of accounts according to international standards. Although there will be a change in the structure of information and a reduction in its amount, a uniform chart of accounts will be maintained by some countries.

19. International concepts will be introduced such as accrual accounting, going concern, substance over form, consistency and historical costs. New items such as intangibles will also be introduced.

20. During the course of the transition much advice has been sought by Eastern European accounting experts. A number of national accounting bodies, regional bodies, international bodies and international accounting firms have responded to these requests by not always in a co-ordinated manner. At times, Eastern experts have been confronted with a bewildering array of choices and the urgency of their situation does not allow them to carefully evaluate all the options. It is too soon to report on the various technical assistance efforts and their results. However, the Group may wish to be brought up to date (as far as possible) on one effort which resulted directly from its work.

21. The United Nations Centre on Transnational Corporations and the USSR Chamber of Commerce organized a workshop in June 1989 called "Accounting for and by East/West joint ventures in centrally planned economies". It brought together over 150 people from government, joint ventures, international accounting firms and academia for the first public discussion of accounting regulations; explored ways to improve comparability; and discussed the need for accounting education and training. The exchange was facilitated by the fact that many of the Group's documents were available in Russian. The participants benefited in particular from Objectives and Concepts Underlying Financial Statements. Following these discussions, the Ministry of Finance, at its executive level, considered the most pressing problems and their solutions. Subsequently, the Ministry issued new instructions for accounting for certain items.

22. To assist the Ministry of Finance in the improvement of existing accounting regulations, the Workshop recommended, inter alia, the creation of an international task force. The Task Force began its work with a first meeting in June 1990 under the co-chairmanship of the Ministry of Finance and UNCTC. Its members consist of representatives of the Ministry of Finance, A/O Inaudit, other Soviet government agencies, Soviet joint ventures, UNCTC, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting and international accounting firms. The Task Force had before it the background document, Joint Venture Accounting in the USSR: Direction for Change, in English and Russian, which enabled it immediately to come to grips with its assignment.

23. The Task Force has embarked on the modernization of accounting regulations in the USSR; in the first instance for joint ventures, but with a view towards making the new system applicable to other firms as well. Rather than surveying a number of national accounting standards, the Task Force is examining the extent to which internationally accepted accounting standards can be used to modernize Soviet practices. The Soviet chart of accounts is being modified to reflect international accounting concepts and practices. The first draft has been circulated for comments and is being revised. The final draft will be submitted to the Methodological Council, the 15 republics and the Council of Ministers for approval. In addition to the chart of accounts, model financial statements are being designed. The Task Force should complete its work by June 1991. The modernization of the Soviet accounting system requires that accounting professionals, both practitioners and academics, be retrained and that accounting curricula be overhauled. The UNCTC together with Soviet educational institutions and the international accounting firms have developed a programme to meet these needs in the short-term.

24. Privatization raises a number of problems including accounting problems. First, there is the legal problem of who owns the property and who can sell it. There is also the economic problem of how the selling price is to be established in the absence of a well-developed buyers' market or a stock market. There are a number of methods of establishing the value of the enterprise such as replacement costs, discounted cash flows and auction prices. Poland plans to privatize 400 firms; the Czech and Slovak Federal Republic, 40 per cent of its economy in two stages. Hungary plans to privatize 50 per cent of its economy. Twenty state-owned enterprises have been put up for sale by the Hungarian State Property Agency and another list of enterprises will be published shortly. The speed and size of these privatization programmes will surpass anything that was done by the United Kingdom and France, both of which had well-developed capital markets.

25. Some lessons can be learned from the former German Democratic Republic regarding accounting issues. Enterprises in the former Republic had to present opening DM balance sheets on 31 October 1990 according to the Act Governing the Opening Balance Sheet. It required full business accounts, including an opening balance sheet and notes on the position as of 1 July 1990. The assets and liabilities were to be revalued and such valuations are to be regarded in the future as acquisition costs. The revaluations were to be based on replacement or reproduction costs. Assets were not to be fixed at levels above current market values. The revaluation also took into account wear and tear and shortfalls in

technology as well as waste disposal, repair and maintenance work. The useful life can be reassessed at a later date. The law also allows the capitalization of intangible assets. The opening balance sheets will remain provisional for a certain period and may be changed up to 1994.

II. KEY ISSUES IN INTERNATIONAL ACCOUNTING

A. New financial instruments

26. At both the seventh and eighth sessions the Group reviewed the issues surrounding the proliferation and use of new financial instruments. As was stated in E/C.10/AC.3/1990/2, enterprises need to improve disclosure in three areas: the volume of their transactions or commitments involving NFIs, their degree of exposure to risk and the accounting practices they use.

27. While the Basle Committee has established rules for measuring risk for balance sheet items and non-balance sheet items, there are still no international standards establishing accounting and reporting requirements. The IASC and the OECD continued to study the issue at the international level while France, the United Kingdom and the United States have issued guidance or exposure drafts on information disclosure regarding off-balance sheet risks and financial instruments.

28. The joint project of the IASC and the Canadian Institute of Chartered Accountants drafted a statement of principles as a first step which was approved subsequently by the IASC Board. The principles will result in a standard which will provide a framework in developing appropriate accounting policies for existing financial instruments and new variations. The statement deals with:

(a) The recognition of financial assets and liabilities;

(b) Classification as a liability or as equity;

(c) Offsetting and de-recognition of financial assets and liabilities;

(d) Measurement;

(e) Disclosure.

The statement distinguished trading instruments from investing and financing instruments. It proposed that financial assets and liabilities of a trading nature should be measured and reported at fair value. Other instruments should be measured and reported at amounts which are based on their historical costs. The Board directed the Steering Committee to develop two alternative approaches: a benchmark where financial assets and liabilities are measured at historical cost and an allowed alternative where they could be measured at fair value; a benchmark where financial assets and liabilities are measured at fair value and an allowed alternative where they could be measured at historical cost.

29. The IASC adopted IAS 30, Disclosure in the Financial Statements of Banks and Similar Financial Institutions. Its requirements will enhance the transparency of banks which are traditionally secretive. The standard emphasizes that off-balance sheet items must be reported if users are to assess the performance, liquidity, solvency and risks involved.

30. In the income statement, banks are required to disclose amounts and the principal types of income and expenses. In the balance sheet, offsetting assets and liabilities is not permitted. A safeguard against hidden reserves is given by the requirement for the disclosure of the market value of dealing securities and marketable investment securities.

31. It is interesting to note that in the wake of the United States thrift industry collapse, the Chairman of the Securities and Exchange Commission (SEC) called for accounting authorities to impose market valuation of securities on United States financial institutions. The Chief Accountant stated that accounting experts failed to question the historical cost model, a methodology repeatedly proven to be irrelevant to valuing the investment portfolios of financial institutions. In the recent round of collapses, many institutions disguised their insolvency by valuing mortgage portfolios at cost rather than actual value.

32. The OECD completed work on its report on new financial instruments and it was approved by its Working Group on Accounting Standards in September 1990. It will be published in the bilingual series "Accounting Standards Harmonization". The Group stressed the urgency of developing internationally harmonized approaches to disclosure and accounting for new financial instruments in view of the rapid development of financial innovation. The Guidelines for Multinational Enterprises (1976) contain a chapter on information disclosure which lists items recommended to be covered in the published reports of multinational enterprises. When the list was drafted, new financial instruments, especially off-balance sheet instruments, were not as prevalent or as complex as they are today. Taking into consideration the risks presently incurred by banks and non-banks, financial instruments now appear to be items which require special attention and specific disclosure. Nevertheless, the Working Group felt that the Guidelines were comprehensive and flexible enough to deal with the disclosure and accounting issues arising from new financial instruments. They reasoned that the list is illustrative and non-exclusive, therefore it covers disclosure of significant off-balance sheet risks associated with new financial instruments.

B. Accounting for intangible assets, including goodwill

33. In 1990, problems relating to the accounting treatment of intangibles, including goodwill, brands, trade marks, patents, research and development, computer software, and so on, remained unresolved and controversial. The issue of intangibles was highlighted in the 1980s by a number of major factors such as international mergers, the pursuit of global market leadership, the world-wide expansion of the services sector, the impact of technological change, and the growing sophistication and integration of financial markets internationally (see E/C.10/AC.3/1990/9). While these factors are continuing influences, more recently,

the dramatic moves to a market economy in the USSR and Central Europe have also raised important questions about the valuation of intangibles. Further, with the onset of economic recession in many countries and world-wide concern about the banking system and international trade, the problems of accounting for intangibles have not diminished. On the contrary, the importance of relevant and timely financial information in a rapidly changing economic environment has been emphasized. The valuation of intangibles as well as tangible assets is an issue of critical importance in times of increased uncertainty but in the case of intangibles, this becomes even more pressing in view of the greater degree of judgment involved in terms of both asset recognition and measurement.

34. Thus, the issue of accounting for goodwill continues to be controversial. The IASC, in its statement of intent (July 1990) on comparability of financial statements, reiterated its E 32 proposal to amend IAS 22 on accounting for business combinations to require a uniform treatment of purchased goodwill. This would require all companies to recognize goodwill as an asset which should be amortized to income on a systematic basis over its useful economic life. The amortization period should not exceed 20 years. The method of immediately writing off goodwill against equity has been eliminated as an acceptable alternative.

35. In Europe, there is substantial opposition to the IASC proposals from transnational corporations with the issues involved being extensively debated among standard-setters and other interested parties. While the European Community in its Seventh Directive is flexible on this question permitting either the systematic amortization of goodwill or its immediate write off against equity, the trend has been for transnational corporations, especially in France, Germany, the Netherlands and the United Kingdom, to use the immediate write-off method.

36. At the national level, however, there has been concern by standard-setters in some countries, notably the United Kingdom, to limit the freedom of choice available and to support the IASC at least to some extent. Although company law in the United Kingdom is flexible, the Accounting Standards Committee (now the Accounting Standards Board) has issued ED 47 (February 1990) on accounting for goodwill, which proposes to restrict practice to the systematic amortization method only. Useful economic life would not be permitted to exceed 20 years, except in rare circumstances subject to a maximum period of 40 years. This proposal has generated a substantial debate and has aroused concerted opposition from company finance directors. It remains to be seen how the new Accounting Standards Board will deal with this problem.

37. In Japan and the United States, on the other hand, there would seem to be majority support for the IASC proposals though in the Unites States, the FASB requirements under APB 17 permit a maximum period of amortization of 40 years compared to the IASC's proposed 20 years. In the United States, it is noteworthy that there is particular interest in encouraging European compliance with the IASC's proposals in view of the alleged competitive disadvantage experienced by United States companies as a result of having to report lower earnings than United Kingdom companies in the context of mergers and acquisitions activity and the market for corporate control.

38. Closely associated with goodwill is the problem of accounting for brand names, trade marks, patents, franchises, publishing titles and so on. This continues to be a controversial issue (see, for example, Egginton, 1990). While the IASC is currently working on a draft statement of principles governing intangible fixed assets, standard-setters in Australia and the United Kingdom, where the debate seems to be most focussed, have issued proposals on the subject.

39. In the United Kingdom, the most recent proposal was issued by Accounting Standards Committee in its ED 52 (May 1990) on accounting for intangible fixed assets. Recognition criteria are proposed which emphasize that the characteristics and costs of intangible assets should be identifiable independently of goodwill and that in the case of acquired assets the existence of an active market in the assets concerned should be independent of the businesses or business segments involved. Where intangible assets are identifiable, it is proposed that they should be deemed to have a finite useful economic life and amortized over a period not exceeding 20 years except in rare circumstances subject to a maximum period of 40 years. This proposed treatment is consistent with that proposed for goodwill and the response has been similarly negative from transnational corporations especially those in service businesses such as food and drink, advertising and publishing. Indeed, the trend has been for more transnational corporations to incorporate brand valuations in their balance sheets (e.g., Cadbury Schweppes in the United Kingdom), and the amortization approach is being strongly resisted. Especially controversial is the view that intangibles should be assumed to have finite useful economic life. In contrast, annual revaluations based on an assessment of economic or current values tend to be favoured with book values to be written down only when in the necessary rather than amortized on an arbitrary basis. In the context of the recent downturn in the world economy, some write-down of brand valuations will no doubt be necessary.

40. In Australia, the Australian Accounting Research Foundation in its ED 49 (August 1989) on accounting for identifiable intangible assets has proposed an approach similar to the more recent United Kingdom proposals but has indicated a maximum amortization period of 20 years consistent with its own requirements on the amortization of goodwill.

41. In the United States, it seems that while the issue of brands and similar intangibles has been the subject of recent debate (see, for example, King and Cook, 1990), there appear to have been no cases of corporations recognizing brands as separate items in their balance sheets similar to Australian and United Kingdom practice. Typically, the values of brand names are lumped in with other intangible assets and described as goodwill which under APB 17 must be amortized against earnings subject to a maximum period of 40 years.

42. The accounting treatment of research-and-development expenditure and related items such as computer software continues to pose problems. The IASC, in its statement of intent (July 1990) on comparability of financial statements, agreed to change its E 32 proposal whereby its preferred treatment was for all research and development expenditure to be expended immediately. The IASC now proposes to require that development costs must be capitalized when they meet criteria specified in IAS 9 and it is probable that these costs will be recovered. This

would seem to be a compromise between restrictive United States approach, whereby all costs are expensed immediately and the more flexible approach to capitalization evident in countries such as Canada, France, Malaysia, Nigeria and Switzerland. The United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting also adopts a more flexible approach consistent with the revised IASC proposals as does the European Community in its Fourth Directive on Company Accounts.

43. Accounting for intangible assets is a major issue of concern for the 1990s. While accounting standard-setters are beginning to address the problems involved there would seem to be a tendency to prefer arbitrary and uniform solutions in a search for relatively reliable and verifiable information. This approach is unlikely to be acceptable to corporations and financial statement users who tend to place more emphasis on relevant information despite the uncertainties involved. A more valuation-oriented and less conservative approach to the recognition and reporting of intangibles seems necessary and inevitable in today's dynamic business environment. Accountants need to face the intangibles issue head-on and develop a more innovative response to accounting for those assets which are so critical to business success.

C. Accounting for environmental protection measures

44. According to the World Economic Forum, 650 industrial leaders ranked environmental problems as the number one challenge facing business. Five oil companies booked $3 billion in special charges to provide for environmental problems in 1989. In its 1989 10-K form, a United States chemical company stated that it will spend $1.5 billion between 1990 and 1994 for environmental protection. These are a few examples to illustrate that new kinds of liabilities are being created or that the frequency and magnitude of some liabilities that were minor in the past may be increasing rapidly (Beresford, 1990a).

45. Currently, ISAR is the only international standard-setting body which has taken up this issue with the exception of the International Assets Valuation Standards Committee (TIAVSC). During 1989/90, it published a standard on the effect of environmental factors or pollution on the valuation of fixed assets for financial statements. Interest is also beginning to appear among accounting academics and accounting institutes. The Department of Accounting and Finance at the London School of Economics held a two-day workshop on green accounting, 9-10 December 1990. The participants discussed, among other things, a recent Coopers & Lybrand Deloitte survey of 108 finance directors in the United Kingdom regarding their opinions on environmental concerns. Eighty-seven per cent of the finance directors saw the environment as a significant issue for their business; 55 per cent believed it raised significant financial concerns but only 29 per cent of the enterprises had ever included environmental information in their annual report. Only 16 per cent conducted environmental audits covering the whole business. Inevitably, the 44 per cent who did not believe that environmental issues raised financial concerns will re-evaluate their responses given the march of legislation, consumer pressure and increasing costs, particularly, of dealing with wastes.

46. The Institute of Chartered Accountants in England and Wales has developed a research programme on measurement and other accounting issues related to the environment. It felt that further research was needed on the measurement of environmental costs to enable companies to improve the monitoring and measurement of their environmental performance. The Canadian Institute of Chartered Accountants has also approved a research project proposal to undertake some study of accounting for and reporting on environmental issues within the existing financial reporting framework. In discussing the need for the project they noted that little guidance can be found that covers environmental protection measures and that the demand for guidance is becoming increasingly urgent. The objective of the project is to discuss the information needs of various user groups relating to the impact of an entity's operations on the environment, and to develop proposals for consideration by the Accounting Standards Committee on accounting and reporting on environmental issues (past, present and those contemplated in the future) within the existing financial reporting framework. The study group will consider the desirability and practicality of providing the type of information set out in the report of the Secretary-General referred to above. It will also consider the auditing and legal implications of providing such information, together with any potential tax implications. The Accounting Standards Committee has also approved a proposal to review the recommendations in CICA Handbook section 3290, Contingencies, and improve standards for recognition, measurement and disclosure of contingencies including uninsured risks of future losses.

III. ACTIVITIES OF INTERNATIONAL AND REGIONAL ORGANIZATIONS

47. The following section is based on the submissions of the organizations themselves or on their annual reports.

A. International Accounting Standards Committee (IASC)

48. During the past year the IASC has finalized the following international accounting standards:

(a) International Accounting Standard 29, Financial Reporting in Hyperinflationary Economies;

(b) International Accounting Standard 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions; and

(c) International Accounting Standard 31, Financial Reporting of Interests in Joint Ventures;

(d) Framework for the Preparation and Presentation of Financial Statements.

49. The following issues are currently being considered by IASC:

(a) Comparability of financial statements - a project to eliminate most of the choices of accounting treatment for like transactions and events currently permitted under existing international accounting standards;

(b) Improvements to International accounting standards - a project to implement the changes agreed in the comparability project and to revise these standards to ensure that they are sufficiently detailed and complete and contain adequate disclosure requirements;

(c) Accounting for taxes on income - a review of International Accounting Standard 12, Accounting for Taxes on Income, in the light of current world-wide developments in the reporting of taxes and to eliminate the few choices in accounting treatment presently permitted by IAS 12;

(d) Financial instruments - to expand the scope of international accounting standards by developing a standard that deals with the recognition, measurement and disclosure of financial instruments in the financial statements of all enterprises. The project seeks to develop general principles that may be applied to a variety of financial instruments. The project is being carried out in conjunction with the Accounting Standards Committee of the Canadian Institute of Chartered Accountants; it is intended that the IASC and the Canadian ACSC will issue the same documents. A statement of principles has been approved by the IASC Board and will be issued in December 1990;

(e) Accounting for long-term intangible assets - to expand the scope of international accounting standards by developing a standard that deals with the recognition, measurement and disclosure of long-term intangible assets. The project takes account of recent developments in the reporting of intangibles in such countries as Australia, Canada, France, New Zealand and the United Kingdom as well as existing requirements in other countries around the world. This project is being carried out in conjunction with the Accounting Standards Committee of the United Kingdom and the Republic of Ireland. A statement of principles was approved by the Board and will be issued in December 1990 to member bodies for comment;

(f) Cash flow statements - to review IAS 7, Statement of Changes in Financial Position, in the light of world-wide developments in cash flow reporting and to consider the development of a standard on cash flow statements in place of IAS 7. This topic has been identified by the International Organization of Securities Commissions and Similar Agencies (IOSCO) as a gap in international accounting standards;

(g) Earning per share - to expand international accounting standards by the development of a standard on the disclosure and determination of earnings per share. This project is being undertaken at the suggestion of IOSCO and a number of IASC member bodies. It is being carried out in conjunction with the international financial analyst community;

(h) Development of accounting standards for developing and newly industrialized countries - a comprehensive review of the financial reporting needs of developing and newly industrialized countries with a view to making recommendations to the Board on the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements in such countries. The Board plans to consider the final report on this project in November 1991.

B. International Federation of Accountants

50. The Council of IFAC took the following decisions:

(a) Approved the report of the Bishop Working Party, "IFAC/IASC: Review of aims, effectiveness and organization";

(b) Agreed that the theme for the XIV World Congress of Accountants, to be held in Washington, D.C., from 11-14 October 1992 would be "Accountants' role in a global economy";

(c) Agreed that IFAC should sponsor the holding of a first International Accounting Technician Conference to which all accounting technician organizations from around the world would be invited.

51. The main recommendations of the Bishop report are as follows:

(a) The existing formal relationship between IASC and IFAC, as expressed in the Mutual Commitments Agreement, should be maintained;

(b) Separate IASC and IFAC secretariats should be maintained;

(c) IASC has sole responsibility and authority for setting international accounting standards;

(d) IASC's proposals for additional external funding are strongly supported;

(e) IASC should address non-business public sector issues;

(f) Change the way the IASC budget is shared between Board member organizations and the other member bodies of IFAC.

1. Planning Committee

52. The Planning Committee met once during the year. The meeting was devoted to consideration of matters affecting the future activities of IFAC and developing proposals to the Council on recommendations contained in the report of the Bishop Working Party, utilization of the money in the IFAC development fund, special projects, future issues topics and procedures for appointing a new Director-General of IFAC. As stated in the report of the Council, the Planning Committee has been disbanded.

2. Education Committee

53. The Education Committee met twice during the year. As a result of its meetings, the Committee approved the Guideline on the Impact of Information Technology on the Education and Training of Accountants, which Council has issued as Education Guideline No. 8, and continued the development of the following projects:

(a) Education of the Accountant in the Year 2000 - and Beyond;

(b) Teaching of Professional Ethics;

(c) Consolidation and update of the existing International Education Guidelines.

It continues to monitor developments in accounting professional education.

3. Ethics Committee

54. The Ethics Committee met twice during the year. The meetings were devoted to further developing the Guideline on Ethics for Professional Accountants, which the Council subsequently issued to replace the existing Statements of Guidance Nos. 1-11.

55. The Committee is also working on developing additional guidance on the independence of auditors involved with multinational securities filings. It continues to monitor ethical issues affecting the accounting profession in the light of changing economic and social conditions.

4. Financial and Management Accounting Committee

56. The Financial and Management Accounting Committee met twice during the year. As a result of these meetings, the Committee:

(a) Published International Management Accounting Practice No. 2: the Capital Expenditure Decision;

(b) Approved publication of International Management Accounting Practice No. 3: Foreign Currency Exposure and Risk Management;

(c) Approved distribution to the member bodies for their review and comment - proposed international management accounting practices on the cost of capital; management control of projects; and a discussion paper on multinational transfer pricing;

(d) Reviewed a draft paper dealing with the measurement and evaluation of corporate financial performance;

(e) Reviewed the point outline on a framework for financial management statements;

(f) Reviewed project proposals dealing with early warning systems; working capital management; and managing quality improvement;

(g) Discussed a glossary of management accounting terms; a proposed project on financial management of intangible assets; and management accounting topics for the 1992 World Congress;

(h) During the Dusseldorf meeting, the Committee held a round-table discussion on financial and management accounting issues with members of the FMAC Network of Senior Financial and Management Accounting Executives in Germany, representatives of the Institut der Wirtschaftsprufer, and a representative of the International Association of Financial Executives Institute.

57. The Committee continues to provide comment, as appropriate, on exposure drafts of international pronouncements and to seek from the members of the FMAC Network statements on the activities of the Committee.

5. International Auditing Practices Committee

58. The International Auditing Practices Committee met three times during the year. As a result, the Committee approved for issue:

(a) International Auditing Guideline 28, First Year Audit Engagements - Opening Balances;

(b) International Auditing Guideline 29, Assessments of Inherent and Control Risks and Their Impact on Substantive Procedures;

(c) International Related Services Guideline, Engagements to Perform Agreed-upon Procedures;

(d) International Related Guideline, Engagements to Compile Financial Information;

(e) Revisions to IAG 12, Analytical Procedures;

(f) Revised IAG 3, Basic Principles Governing an Audit;

(g) Revised IAG 6, Study and Evaluation of the Accounting System and Related Internal Controls in Connection with an Audit;

(h) International Statement on Auditing, The Audit of International Commercial Banks;

(i) Information booklet, Understanding Financial Statement Audits.

59. Other projects currently on the agenda of IAPC are:

(a) Reporting on comparative financial information;

(b) Illegal acts;

(c) Obtaining knowledge of the client's business;

(d) Audit of segmental financial information;

(e) Audit of long-term investments;

(f) Codification of IAGs;

(g) Auditor's responsibilities in connection with supplementary information;

(h) Auditor's relationship with management;

(i) Other subcommittees have been established to review certain IAGs for modification; monitor the activities of the Public Sector Committee; and liaise with the International Organization of Securities Commissions (IOSCO).

60. IAPC is currently working closely with representatives of IOSCO with the aim of obtaining the acceptance of the IAGs for the purposes of multinational offerings of securities and has already made significant progress in revising certain IAGs with this aim in mind.

6. Public Sector Committee

61. The Public Sector Committee met twice during the year. As a result of these meetings, the Committee:

(a) Approved publication of international public sector guidelines on financial reporting by government business enterprises and on the applicability of international auditing guidelines to audits of financial statements of government business enterprises;

(b) Approved for distribution to the member bodies and the Public Sector Network for their review and comment proposed monographs on financial reporting by national Governments and elements of financial statements of public sector entities;

(c) Reviewed drafts of documents dealing with reliance on the work of other auditors in government auditing; applicability of international auditing guidelines to all public sector audits of financial statements; and bibliography of public sector accounting and auditing material;

(d) Approved distribution of survey questionnaires to elicit opinions from member bodies, network members and individuals in the public sector on current financial reporting, accounting, auditing practices and related issues in their countries;

(e) Agreed to prepare project proposals on compliance standards and an accounting topic.

C. International Assets Valuation Standards Committee (TIAVSC)

62. The objective of TIAVSC is to formulate and publish valuation standards and procedural guidance on the valuation of assets for use in financial statements and to promote their world-wide acceptance and observance. Formed in 1981, it is supported by the professional bodies of all member countries, which now number 28.

63. Since 1981, TIAVSC has published guidance notes and background papers covering all aspects of asset valuation in an endeavor to harmonize standards world-wide and to ensure, as far as possible, that asset values conform to economic reality as at the date of valuation. The principal guidance notes cover the classification of fixed assets, the valuation of land and buildings, depreciation, plant and machinery and security for loans.

64. During 1989/90, TIAVSC have published the following additional standards on asset valuation practice:

(a) Glossary of international phrases;

(b) Glossary of key terms;

(c) Background paper on the valuation of rural assets;

(d) Effect of environmental factors or pollution on the valuation of fixed assets for financial statements.

65. Papers under consideration include the valuation of public-sector utilities and a general review/rewrite of all TIAVSC standards to also incorporate European and other national standards into a single document.

D. European Community

66. On 17 and 18 January 1990, the Commission of the European Communities held in Brussels the Conference on the Future of Harmonization of Accounting Standards in the European Community. Some 130 people participated, representing national administrations, the accounting profession and the main users and preparers of accounts, as well as IASC, OECD and ISAR. At the Conference, it was decided to set up an accounting advisory forum which could advise the Commission on future steps to be taken in order to improve the comparability of financial information published by companies within the Community as well as new issues and international developments in the area of accounting and financial reporting.

67. On the legislative front, work has continued on a directive concerning the annual accounts and consolidated accounts of insurance companies. It is expected that the directive will be adopted by the Council of Ministers during the first semester of 1991. On 8 November 1990, the Council adopted two directives which amend the scope of application of the accounting directives (O. J. No. L 317 of 16 November 1990). The first directive extends the scope of application of the accounting directives to certain partnerships. The second increases the accounting exemptions in favor of small and medium-sized companies and allows companies to publish their accounts in écus.

E. Organisation for Economic Co-operation and Development

68. In 1991, the OECD Working Group on Accounting Standards continued its work to promote increased international comparability of financial statements and the harmonization of accounting standards and to provide information on the accounting terms contained in the chapter on disclosure of information of the OECD Guidelines for Multinational Enterprises.

69. On 25-27 September 1990, the newly created OECD Centre for European Economies in Transition organized, in co-operation with the Working Group on Accounting Standards and the Federation des Experts Comptable Europeen, a seminar on East/West accounting issues. Experts from Czechoslovakia, Hungary, Poland and the USSR took part in the discussions, together with participants from the accounting and auditing professions, academics, the business and labour community and other international organizations active in this field.

70. A major purpose of the seminar was to identify the objectives and main elements of financial reporting in both Eastern and Western accounting systems, and to examine them in the context of the overall economic reforms taking place in Central and Eastern Europe.

71. The seminar generated a broad exchange of views and experiences covering such topics as the main elements of financial reporting, accounting issues relating to restructuring, privatization and the development of financial markets, the role of the accounting profession, and the standard-setting process and issues of harmonization of accounting standards in the East/West context.

72. Participants agreed that the legal and economic transformations under way in Central and Eastern Europe implied major reforms of the accounting systems in those countries if those accounting systems were to provide the information necessary for efficient decision-making in competitive market economies. Whereas the importance of adapting the systems to meet the requirements of transforming centrally planned economies to market oriented economies was recognized, the need to move cautiously in defining the reforms and the pace of their implementation was also stressed. A major difficulty with advising Central and Eastern European countries is that they had not yet fully resolved what type of market economy they would introduce.

73. The first opportunity to discuss issues relating to East/West accounting differences was valuable, especially in defining the need for further assistance to the economies in transition. The seminar also highlighted the need to draw lessons from experiences in the West, particularly, those relating to privatization. Technical assistance, particularly in the form of translation of international accounting standards into Central and Eastern European languages was offered by several of the international organizations present. Contacts between the Central and Eastern European countries and OECD would continue in order to identify specific accounting reform needs and how best to satisfy them. Publication of the proceedings of the seminar would take place in 1991.

74. A round table was organized in May 1990 to discuss issues relating to the mutual recognition of financial statements and intra-annual financial statements. In the latter area, the group is currently looking at the requirements to publish intra-annual financial statements, the period covered by those statements, whether they should be reviewed by an independent accountant and what information should be provided. Discussion on the mutual recognition of financial statements centred on the meaning of mutual recognition, what type of issuers should be included in any mutual recognition system, should there be recognition of full length prospectuses, what kind of review procedure was necessary, etc. Next spring, the group will consider a summary note on those topics and proposals for future work.

75. On the basis of a questionnaire on accounting for intangibles, the group is currently preparing a study to determine the accounting and reporting practices relevant to intangible assets in different OECD member countries. That work will be the subject of a special round table discussion scheduled for next spring.

76. Following the OECD Symposium on New Financial Instruments held in 1988, and the publication of the proceedings of that Symposium, the OECD organized a Special Session on New Financial Instruments to follow up on the main issues identified at the Symposium and to determine whether clarification of the guidelines was necessary in order to take account of the disclosure aspects of the new instruments. A report summarizing the discussions of the session was finalized in 1990 and will be published under the responsibility of the OECD Secretary-General.

77. In addition to the report on segmented financial information and the study on new financial instruments, the special session also published for general distribution "Disclosure of information by multinational enterprises: the 1989 survey", based on the 1987-1988 annual reports of a sample of multinational enterprises in different member countries.

F. Confederation of Asian and Pacific Accountants (CAPA)

78. Membership in the organization consists of 31 accountancy bodies from 22 countries. Recently admitted to CAPA are the two French bodies: Ordre des experts comptables et des comptables agrées and the Compagnie nationale des commissaires aux comptes. They represent France's interest in the South Pacific - i.e., Polynesia and New Caledonia.

79. The eight-course teaching resource materials for accounting technicians developed under a technical assistance grant from the Asian Development Bank have been completed and are ready for distribution. CAPA member bodies, international accounting organizations, the appropriate government agencies and educational institutions in the Asia and Pacific area will be the recipients of the teaching materials. As executing agency, CAPA enjoins all member bodies to use these materials actively and to benefit directly from the technical assistance.

80. CAPA is examining the viability of a regional accountancy resource centre. Continuing professional education, accounting technician training, developing accounting organizations and application of new technology in accounting education are seen as most likely activities of such a regional centre.

81. CAPA has begun planning for the thirteenth CAPA Conference, to be held in Vancouver in 1993.

G. Federation des experts comptables europeens (FEE)

82. Membership in the Federation consists of 34 accountancy bodies from 22 countries.

83. FEE's activities respond to the needs of the European accountancy profession as a whole, taking into account the work performed by the world-wide bodies of IFAC and IASC. Links are maintained with relevant non-accounting organizations, such as OECD, GATT and the United Nations. FEE is a major source of technical advice to the various institutions of the European Community, including the Commission, the European Parliament and the Economic and Social Committee.

84. During the period under review, FEE held its first conference in Brussels in October, under the general theme, "The European accountant - a professional at your service". It organized during February a seminar in Vevey, Switzerland, on the impact of the Uruguay Round services trade negotiations on the accountancy profession; hosted, also in February, a conference of EC government officials and representatives of the profession on the implementation of the directive on the mutual recognition of professional qualifications; and held, near Munich during April, a conference on performance measurement in public sector financial management.

85. The 1991 FEE Conference will take place in Venice, 10-13 October.

86. FEE also published its first survey of financial reporting in Europe, which was the main working document for a conference on the future of accounting harmonization in the EC, organized by the Commission in January. As a consequence of the conference, the Commission announced the creation of a European Financial Reporting Forum to advise it on accounting matters. FEE will be a member of the Forum, which will also group together national standard setters, preparers and users.

87. The dramatic developments in Central and Eastern Europe have led FEE to assist in the creation and development of professional accountancy bodies in the new emerging market economics.

H. Interamerican Accounting Association (IAA)

88. Membership consists of 28 sponsoring bodies in 23 countries.

89. During the period July 1989-July 1990, the IAA Directors met in Asuncion, during the XVIII Interamerican Conference, and nominated a new Executive Committee for the period 1990-1991. At the end of the XVIII Conference, the new Executive Committee held its first meeting and elected Miguel Angel Alarcon, from Paraguay, as President of IAA for the same period.

90. The XVIII Conference was held in Asuncion, Paraguay, from 25-29 September 1989, with the presence of about 750 participants. For the first time, an IAA Conference counted on the presence of the Presidents of IFAC, CAPA and FEE and the designated IASC Chairman.

91. IAA has held five Interamerican regional accounting seminars in different countries: Ecuador, Republica Dominicana, Honduras, Puerto Rico and Uruguay.

92. IAA, with the support of IFAC, has embarked on the translation and publication of international accounting standards and international auditing guidelines. IAA will distribute the translated standards and guidelines among member bodies.

93. IAA is promoting the profession among young students and the organization of Accounting Students Congresses as a response to the theme of the present year, "Year of youth and changes".

94. In order to improve the level of its affiliates and member bodies, IAA is trying to publish technical books and organize management courses.

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Ninth session
5-15 March 1991
Item 3 (a) of the provisional agenda*

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT THE GLOBAL AND NATIONAL LEVELS IN THE FIELD OF ACCOUNTING AND REPORTING BY TRANSNATIONAL CORPORATIONS

Review of important current developments at the national level in the field of accounting and reporting by transnational corporations

Report of the Secretary-General

SUMMARY

This report reviews the new legal requirements and/or standards that have recently been adopted in various countries, as well as those standards under consideration. The review is based entirely on country submissions in response to a questionnaire circulated to all member Governments. Forty-one countries replied, and more are expected to make oral reports during the ninth session which will be included in the 1991 annual review of Issues in International Accounting and Reporting. Other information on national standards relating to the four issues identified by the Group for discussion at the ninth session - accounting for and by joint ventures, accounting for environmental protection measures, accounting and reporting during and after the transition from state to private enterprises and organization of the accounting profession and the role and qualifications of auditors - has been included in the respective technical reports.

* E/C.10/AC.3/1991/1.

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I. NEW LEGAL REQUIREMENTS AND/OR STANDARDS GOVERNING CORPORATE ACCOUNTING AT THE NATIONAL LEVEL

1. The present report was prepared on the basis of responses to a note verbale and questionnaire circulated to all member Governments. A total of 41 replies were received; 36 are reproduced here; two were not usable and three (China, France, Union of Soviet Socialist Republics) will appear in an addendum. The United Nations Centre on Transnational Corporations acknowledges, with appreciation, the co-operation of the respondents in providing the information requested. The questionnaire facilitated replies and improved the quality of information and the response rate compared to previous years. There still appears to be a problem in the prompt transmission of the questionnaire from the receiving government departments to the department in charge of accounting matters. The Centre invested considerable resources in follow-up letters and telefaxes and often discovered that the appropriate authorities had not yet received the questionnaire. The experts may wish to take up this matter with their respective Governments as appropriate in order to improve the transmission of the questionnaire to the appropriate parties. Some countries noted that the questionnaire that contained recommendations on the environment was rather long and suggested that countries might be sent an abbreviated request (that is, only questions one and two). Since the questionnaires arrive too late to be of much use in the preparation of the technical papers, there is some merit in this suggestion. On the other hand, much interesting information is submitted that could be annexed to the technical reports when they are published in the annual review.

II. CURRENT DEVELOPMENTS IN ACCOUNTING AND REPORTING

Bahamas

2. There are certain legal requirements applicable to insurance companies, banks and government corporations in preparing annual audited financial statements. Such statements should conform to generally accepted accounting standards which, in the Bahamas, are the standards promulgated by the International Accounting Standards Committee (IASC). The Bahamas Institute of Chartered Accountants (BICA) has designated the standards of IASC as the applicable standards of reporting in the Bahamas. The Government, as such, has not prescribed any specific standards with respect to the form and content of financial statements. Banks and insurance companies, however, are required by law to file periodic returns on their activities and positions, which are used to aid in the regulation of the respective industries. The Bahamas has recently adopted the following standards:

IAS 26 Accounting and Reporting by Retirement Benefit Plans

IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries

IAS 28 Accounting for Investments in Associates

BICA has considered the following exposure drafts:

ED 31 Proposed Statement: Financial reporting in hyperinflationary economics

ED 32 Comparability of financial statement: Proposed amendments to International Accounting Standards 2, 5, 8, 9, 11, 16, 17, 18, 19, 21, 22, 23 and 25

ED 33 Proposed statement: Accounting for taxes on income (as there are no income taxes in the Bahamas, this issue is unlikely to have a significant impact on local practice)

ED 34 Proposed statement: Disclosures in the financial statements of banks and similar financial institutions

3. In addition, BICA resolved that while the relationship of a controlling interest is required to be disclosed pursuant to IAS 24 (whether or not transactions take place), the identity of such party need not be disclosed. BICA is of the view that this position, is consistent with the spirit and intent of IAS 24.

Bahrain

4. There are no locally prescribed standards for accounting and financial reporting in Bahrain.

5. The International Accounting Standards are generally referred to by the accounting profession, but this is not mandated by law.

Bolivia

6. All public and private enterprises are required to submit their financial statements, as follows:

(a) General balance sheet, trial balance, statement of changes in financial position and statement of source and application of funds;

(b) Where reported capital is more than 300,000 Bolivian pesos and annual earnings exceed 600,000 Bolivian pesos, these financial statements must be submitted to the income tax authorities, together with an external auditor's opinion.

7. The Law on the System of Administration, Auditing and Governmental Control, adopted by the National Congress on 9 July 1990, sets legal accounting and reporting standards for the public sector. Article 27 of this law provides that each entity in the public sector shall draw up, within the framework of the basic standards issued by the policy-making bodies, specific rules for the functioning of the administrative systems and internal audit subject to this law, and of planning and public investment systems.

8. The following requirements also apply:

(a) For purposes of further external audits, entities subject to governmental control shall send the Office of the Controller a copy of their contracts and supporting documents within five days from the time the documents are finalized;

(b) Within three months of the close of the fiscal year, each financially autonomous entity with its own capital must submit financial statements of the previous business year, together with corresponding notes and the internal auditor's report, to its supervisory body and the National Office of General Auditing, and it shall make such records available to the General Office of the Controller of the Republic.

Brazil

9. Accounting and reporting by Brazilian corporations are provided for by the Corporation Law of 1976. Publicly held companies are subject to additional reporting requirements determined by the Brazilian Securities Commission (Comissao de Valores Mobiliários (CVM)). Regulated industries (utilities, banking and financial institutions, insurance, pension funds etc.) are subject to accounting and reporting requirements provided for in specific legislation. Tax legislation also affects accounting standards.

10. The Brazilian Institute of Accountants (IBRACON), a private entity that includes accountants with a university degree, has been preparing proposals of technical pronouncements (statements) on accounting and auditing standards issues. Such proposals, when adopted by CVM, the Central Bank of Brazil and the Federal Council of Accountants, become mandatory in their related area of enforcement.

11. During 1989 and 1990, several major accounting and reporting requirements affecting Brazilian corporations were introduced.

Normative rulings from CVM

12. Periodically, CVM issues normative rulings on accounting and reporting matters affecting publicly held corporations. The major subjects dealt with by CVM were:

(a) Improvements in the method of preparing price-level financial statements, basically allowing the use of monthly average inflation coefficients;

(b) Guidance to publicly held companies and independent auditors on relevant accounting and reporting issues to be observed in the 31 December 1989 year-end closing;

(c) Change in the quarterly reporting requirement, whereby additional disclosures were introduced and auditors' special (limited) reviews were required;

(d) Constitution of a top-level consulting committee on disclosure policies of publicly held companies: (i) to contribute, in all relevant aspects, towards the disclosure of information of publicly-held companies aiming at the development

of the securities market; it is expected that the committee will present suggestions and opinions that may improve the rulings to be issued by CVM; (ii) to render opinions on the rulings already issued by CVM, with a view to their eventual updating.

Pronouncements from IBRACON

13. The major accounting and reporting matters addressed by IBRACON in 1990 were technical statements Nos. 001/90 and 002/90, dealing with the minimum scope of the special auditors' review of the quarterly financial statements for the period ended 31 March 1990 and all periods ending from 30 June 1990, respectively.

14. Included in technical statement 001/90 was the requirement to disclose, in the 31 March 1990 quarterly statements, the effects of the "New Brazil Plan", set out by the Federal Government on 16 March 1990.

15. Specific legislation affecting regulated industries is not listed above nor is the tax legislation that affected accounting practices.

16. The following issues are currently being considered for standard-setting:

(a) Setting out rules applicable for the operation of the recently introduced "commercial paper";

(b) Requirement of full price-level accounting to commercial banks and other financial institutions;

(c) Change in the wording of the independent auditors' report on financial statements;

(d) Finalization of the guidelines on auditing procedures.

Canada

New legal requirements

17. In November 1989, the Ontario Securities Commission and the Québec Securities Commission (Commission des valeurs mobilières du Québec) issued their policy statements on the annual information form and management's discussion and analysis of financial condition and results of operations.

Accounting standards

18. The following new standards have been issued since August 1989, the date of the previous response:

(a) Discontinued operations (CICA Handbook, sect. 3475, issued December 1989). The results of discontinued operations should be included in net income and reported separately for current and prior periods;

(b) Extraordinary items (revised CICA Handbook, sect, 3480, issued December 1989). This revised section significantly narrows the previous definition of extraordinary items; the outcome of the related transaction or event must not have depended primarily on decisions or determinations by management or owners;

(c) Non-monetary transactions (CICA Handbook, sect. 3830, issued December 1989). Non-monetary transactions are to be recorded at the fair value of the assets or services provided, unless they do not represent the culmination of the earnings process or represent a restructuring or liquidation.

(d) Pension plans (CICA Handbook, sect. 4100, issued March 1990). This section establishes accounting standards for general purpose financial statements of defined benefit and defined contribution plans. It states that pension plan financial statements should include: (i) a statement of net assets available for benefits; (ii) a statement of changes in net assets available for benefits; and (iii) information with respect to pension obligations;

(e) Capital assets (CICA Handbook, sect. 3060, issued October 1990). This new section replaces existing accounting standards on fixed assets (CICA Handbook, sect. 3060), intangibles (sect. 3080) and appraisal increase credits (sect. 3270). It requires:

(i) Write-down of capital assets when net carrying amount exceeds net recoverable amount;

(ii) Recognition of the liability arising from future removal and site restoration costs that are incurred because of environmental law, contract or company policy;

(iii) Amortization of all capital assets (that is, both tangible and intangible), except land, in a rational and systematic manner.

19. The Accounting Standards Committee of the Canadian Institute of Certified Accountants (CICA) has issued an exposure draft on the following subjects for comment by interested parties:

(a) Financial statement concepts: non-profit organizations (January 1990);

(b) Long-term investments (April 1990).

20. Other issues currently being considered are:

(a) Interest on assets and liabilities;

(b) Establishing a new cost basis;

(c) New financial instruments (being undertaken on a joint basis with IASC);

(d) Specific issues relating to non-profit organizations.

The project on corporate income taxes has been discontinued.

21. Proposals have recently been approved to undertake new projects on contingencies, related party transactions, foreign currency translation (certain aspects), and investments in joint ventures.

Chile

22. During the past two years, the following regulations have been enacted:

Circular No. 678 (16 June 1989) regularizes the treatment for the revaluation of fixed assets;

Circular No. 869 (22 September 1989) stipulates the information to be given to the public by companies that list their securities on the Stock Exchange;

Circular No. 922 (23 January 1990) has the goal of using the actual format of the financial statement to provide information both about the issues in the Registry of Securities and about the presentation of financial statements; this circular modifies a previous one (No. 239) relating to the rules governing the form and content of the financial statements of companies listed in the Registry of Securities, adding information that is to be presented in the Registry of Uniform Statistics;

Circular No. 931 (14 February 1990) sets out rules regarding the disclosure of periodic information about the issue and placement of securities;

Circular No. 939 (16 April 1990) gives instructions about accounting for leases; defines general concepts and gives instructions about the valuation of assets, the necessity of making provisions and other accounting rules for leasing operations whose accounts must be presented in the Registry of Uniform Statistics as well as information that is to be included in their financial statements.

23. Currently under consideration are rules for forward contracts and deferred payments.

Colombia

24. The Ministry of Economic Development certifies that the companies subject to its audit authority and inspection comply with the following standards:

Laws and decrees

1. Decree regulation 2160 of 1986. Regulated commercial accounting and established generally accepted accounting standards.

2. Decree regulation 2553 of 1987. Amended articles 7, 14, 22, 34, 60, 68, 71 and 95 of decree 2160 of 1986, and repealed articles 41, 42 and 43 thereof.

3. Decree law 2686 of 1988. Attention is drawn to the article amending accounting standards, particularly in connection with "valuation at cost". Article 7 may be summarized as follows: depreciation for tax purposes on assets acquired from 1989 on may be based on book values adjusted for inflation.

4. Decree regulation 1000 of 1989. Provides for the share premium to be treated as a capital surplus in the accounts so that it will not constitute taxable income.

5. Decree regulations 3019 and 3032 of 1989. Govern, in particular, the establishment of percentage adjustments for inflation to arrive at the adjusted cost of fixed assets for the years 1989 and 1990; also specify accounting treatment of adjustments for inflation. Introduce "revaluation of capital" account (credit balance).

6. Act No. 7 of 1990 and decree regulation 748 of 1990. Accounting treatment of own shares repurchased by livestock funds to offset losses on debts contracted in good faith, as well as shares and dividends not claimed by shareholders within a period of three years.

7. Decree regulation 1380 of 1990. Establishes regulations under articles 126 and 132 of the Code of Commerce relating to the procedures and support documentation for approval by the Companies Board of the valuation of contributions in kind.

External circulars

1. External circular No. 010 of 30 December 1988. Contains instructions relating to the presentation and quantification of actuarial calculations and accounting records.

2. External circular No. 001 of 12 January 1989. Provides that recording in the accounts of valuations of property, plant and equipment covered by article 48 of decree 2160 referred to above is optional in respect of the financial years ending 31 December 1988 and 31 December 1989.

3. External circular No. 001 of 22 January 1989. Provides that, with effect from issuance of the circular, companies that elect to record valuations for the 1989 financial year in the accounts must do so subject to the requirements of article 48 of decree 2160 of 1986, and further provides that, for the 1990 financial year, valuations of property, plant and equipment must be reflected in the appropriate financial statements.

4. External circular No. 004 of 1 March 1990. Provides instructions on how to fill out the official form on which companies must present financial statements for the 1989 financial year and subsequent financial periods,

25. The following draft decrees and circulars are being considered:

1. Draft decree regulation on books of account. By virtue of the authority conferred under articles 50, 56 and 2035 of the Code of Commerce, defines which books must, as a minimum, be kept by businesses, the way in which accounts must be kept and the filing and safekeeping of a business's books and documents.

2. Draft external circular on consolidated financial statements. States minimum requirements for the preparation and presentation of consolidated financial statements, in accordance with article 14, as amended by article 2 of decree 2553 of 1987, and article 85 of decree 2160 of 1986.

3. Draft external circular on accounting regulations governing livestock funds and presentation of financial statements.

4. Draft external circular on reports to be submitted to the Companies Board by brokers at the National Agricultural Exchange.

Czechoslovakia

Developments in 1989 and 1990

26. Law 128/1989 replaced law 21/1971 on a uniform socio-economic information system.

27. Government decree No. 136/1989 on the information system of organizations established the basic rules for accounting, bookkeeping, calculation, statistics, audit of financial statements, valuation of assets, and budgeting of enterprises. This decree will be revised in 1992.

28. Government decree 23/1990 of the Federal Ministry of Finance established the duties of organizations, forms of accounting documents, their review, ledgers, ways and means of keeping them etc. This decree also promotes the computerization of accounting. It will be revised in 1992.

29. Directive V/13000/1989 of the Federal Ministry of Finance establishes the schedule of accounts and their code numbers. The schedule of accounts, comprising general accounts, is binding on all state enterprises, joint ventures and joint stock companies. In selected sections of the schedule of accounts, enterprises may create their own lists of accounts. The directive simplifies financial statements and facilitates their use for the control of enterprises.

30. Directive V/Z-4900/1990 of the Federal Ministry of Finance on private enterprise accounting includes accounting rules for private enterprises. Small private companies with less than 25 employees and with profits less than 540,000 koruny, are not obliged to use double-entry accounting and may use a cash book. Larger private enterprises must use double-entry bookkeeping and must draw up a balance sheet, income statement and profit allocation report.

31. Directive No. V/1500/1990 lists the accounts and accounting rules for all types of organizations in the productive sector, including state enterprises, joint ventures and joint stock companies. Each type of enterprise has special accounts,

which means, for instance, that joint ventures do not use the special accounts for state enterprises.

32. On 27 June 1990, the Union of Accountants was established and in September, the Slovak Accountants' and Auditors' Union was created. Both are independent of Government, having their own constitutions and economic rules.

33. Decree 63/1989 of the Federal Ministry of Finance on auditors and their work is still in operation. Under the present decree, auditors must check the annual statements and the economic activity of the enterprise and make a written report. A new set of laws concerning auditors and their work in a wide variety of corporations - joint ventures, state enterprises, joint-stock companies etc. - is being prepared. It is expected that the laws will come into effect on 1 January 1992.

34. To accomplish economic reform and the transition to a market economy, new accounting regulations have to be prepared. They will be based on the Fourth, Seventh and Eighth Directives of the Council of the European Communities. Laws 21/1971 and 128/1989 will be cancelled in 1992 and basic accounting rules will be written into a new business law. This will simplify and unify accounting rules. At present, the Government is dealing with the problems of privatization, the application of simplified accounting in some of the new types of corporations, the transformation of financial statements to those used in a market economy, collecting accounting data for the purpose of establishing national accounts etc.

35. The aims of privatization are stated in the Scenario of the Economic Reform in Czechoslovakia. Before the extensive process of large-scale privatization occurs, a minor privatization will take place mainly in the trade and service sectors. Property will be offered to Czechoslovak citizens at auctions and will be paid for in cash. Major privatization will most frequently involve the formation of joint stock companies. The shares will be partly paid by so-called investment coupons (vouchers), which will be given to Czechoslovak citizens free of charge.

Cyprus

36. No new accounting standards were adopted during the recent period.

37. Accounting and reporting in Cyprus is governed by the Companies Law. In addition, the Institute of Certified Public Accountants of Cyprus has adopted the International Accounting Standards in their entirety.

38. Changes in the Companies Law are currently being considered by an ad hoc committee set up by the Government.

El Salvador

39. The following new requirements governing corporate accounting were adopted during 1989 and 1990:

(a) The revaluation of fixed assets account must be separate from cost of acquisition of the revalued property (Commercial Code 1973);

(b) The loans to shareholders account must be separate from accounts payable, current, in order to provide better balance-sheet disclosure. Capital not fully paid must be reported in a special account (minimum requirements for the establishment of an accountancy system);

(c) The system of direct costing is not allowed.

Finland

40. Some technical changes were introduced into the Accounting Law as at 1 January 1990 concerning the utilization of advanced data processing and microfilm techniques in recording and filing accounting material.

41. The Finnish Accounting Standards Committee has issued a pronouncement referring to the introduction of the imputation system in the taxation of dividends and several other pronouncements in connection with the practical interpretation of the Accounting Law in 1989 and 1990.

42. A governmental committee is currently considering changes in the Finnish accounting legislation in order to bring Finnish accounting norms closer to European Community practice. The Accounting Law Reform Committee has also been analysing the possibilities of separate tax accounting and financial accounting systems.

43. The Finnish Accounting Standards Committee is currently preparing an extensive pronouncement referring to accounting in a computerized environment. It is also considering a pronouncement in connection with accounting of new financial instruments.

Germany

44. The Act Governing the Production of Opening Balance Sheets in Deutsche Marks and the Assessment of Capital, dated 23 September 1990, forms part of the Treaty of 31 August 1990 between the Federal Republic of Germany and the former German Democratic Republic (Unification Treaty). The Act came into effect together with the Treaty on 29 September 1990 (Federal Law Gazette II, pp. 885, 1169), and has been applicable since 1 July 1990. Following the accession of the German Democratic Republic, it continues in force as partial federal law of the Federal Republic of Germany in the former territory of the German Democratic Republic. At the same time, competences were transferred to the organs and agencies of the Federal Republic of Germany.

45. Under the Act, all undertakings with registered offices in the territory of the former German Democratic Republic that are required under commercial law to produce full business accounts, are obliged to produce an opening balance sheet and notes on the position as at 1 July 1990, within a period of four to six months. Undertakings that are also parent companies must also produce a consolidated opening balance sheet and consolidated notes.

46. To a large extent, the directions for annual accounts contained in part III of the Commercial Code, as amended in accordance with the Fourth Directive of the Council of the European Communities, are to be applied to the opening balance sheet.

47. Assets and liabilities are, in principle, subject to revaluation unless they must be converted into deutsche marks at a specific rate as receivables or liabilities. The valuations contained in the opening balance sheet are to be regarded in future as acquisition or production costs.

48. The revaluation is to be based on replacement or reproduction costs. However, assets must not be fixed at levels above their current market value. In the case of depreciable assets, account must be taken of wear and tear and of shortfalls in technical advancements by reducing the assessed values. Such reductions are also to be applied to land used for the disposal of waste and recultivation, to buildings and technical and other plants for neglected maintenance and large-scale repair work.

49. The useful life of depreciable assets is to be reassessed. This is to be effected on the basis of time periods fixed as at 1 July 1990 for the determination of taxable income.

50. The revaluation of assets and liabilities will, in many cases, lead to a situation in which undertakings will be forced to show in their opening balance sheet too low a value of equity capital or even that liabilities exceed assets. In undertakings formerly "owned by the people" that are capable of rehabilitation, the situation in which liabilities exceed assets will be ended by the granting of equalization claims against the parent company.

51. The creation of the minimum capital prescribed by the legal form of the undertaking will be regulated under company law by requiring the parent company to make a corresponding contribution. Where this contribution was made before the currency conversion, a capital depreciation account may be opened by all undertakings concerned, which must then be set off against the undertaking's results in subsequent years. Finally, it will be possible for undertakings to create equity capital in the form of a temporary profit reserve by capitalizing their own intangible assets. This reserve must be set off from the results in subsequent years.

52. Opening balance sheets in deutsche marks are to be examined by independent auditors and published; concessions will be made for small and medium-sized undertakings.

53. The opening balance sheet also forms the basis for future taxation. Changes in the value of assets resulting from revaluation and currency conversion are not liable for taxation.

54. In the period under review, the Institute of Certified Accountants published comments on the principles of proper accounting; mention should be made in particular of the following:

(a) Accounting by the lessor (HFA 1/1989). Leased assets are recorded in the balance sheet of the lessor if the lessor is the owner in legal and economic terms. In these cases the leased assets should be shown separately, beyond the statutory breakdown. In the valuation, the costs of the leasing contract may neither be capitalized as purchasing or manufacturing costs of the leased asset nor as intangible assets or accrued and deferred items. In addition, the comments include proposals on the receipt of lease payments affecting profit and loss, where the contractual arrangements do not lead to an appropriate balance between performance and counter-performance in the individual periods. Furthermore, the comments deal with the accounting of the forfeiting of lease claims.

(b) Inventory procedures (HFA 1/1990). The comments deal with the essential principles for physical stock-taking within the inventory process. Any businessman may freely choose the inventory procedure suitable for his particular purpose. The comments include recommendations on inventory procedures for automatically controlled storage systems and for system-supported workshop inventories. Comments on sampling procedures for the stockpiling inventory for the purpose of annual financial statements (HFA 1/1981) have been revised and republished (HFA 1/1981 in the version of 1990) because of further developments in the statistical bases, in particular because of the widespread taking into account of so-called test procedures.

(c) Overall valuation adjustment for credit institutions (BFA 1/1990). In the comments on the establishment of overall adjustments for the latent credit risk in the annual financial statement of credit institutions, there are recommended principles on how to value that part of the credit risk that is not covered by individual adjustments.

Ghana

55. Corporate accounting and reporting is governed by the following legislative instruments:

(a) Companies Code, 1963, Act 179;

(b) Financial Administration Regulation, 1979;

(c) Instruments of Incorporation - statutory bodies;

(d) Audit Service Decree 1972;

(e) International Accounting Standards (IAS).

Standards of accounting

56. The Fourth Schedule of the Companies Code describes the form the financial statement should take and items to be included therein.

Standards of reporting

57. The Fifth Schedule specifies matters to be expressly stated in the auditor's report, such as:

(a) Whether the information and explanations necessary for the audit have been obtained;

(b) Whether proper books of accounts have been kept;

(c) Whether the financial statement is in agreement with the books of accounts and returns;

(d) Whether the balance sheet shows a true and fair view of the state of affairs and the profit-and-loss account shows a true result for the period. In case of government audit, the auditor is, in addition, expected to report on the government budgetary resource allocation and utilization.

58. The Institute of Chartered Accountants of Ghana is currently considering promulgating Professional Standards of Accounting and Auditing. To this end, a Professional Standards of Accounting and Ethics Committee, set up under the chairmanship of a former Auditor-General, has submitted its report to the Council of the Institute for study and approval.

Hungary

59. Financial statements are still regulated by Order No. 60/1987 (XII.7) of the Ministry of Finance. No new regulations have been passed to amend this. However, three Acts (Decrees) do have a minor bearing on the provision of financial information:

(a) The Act on Economic Associations, 1988, stipulates that the Board of Directors of Companies Limited by Shares shall make public the balance sheet and the report of the Board of Directors;

(b) Act XIII, 1989, on the Transformation of Economic Organizations and Economic Associations, gives minimum guidance on the valuation of the enterprise, its assets and the drawing up of new balance sheets;

(c) Decree 30/1989 (VII.1), on property in the balance sheet, gives more detailed guidance on the valuation of assets and liabilities under the Transformation Act.

60. Under the Transformation Act, the following rules will be applied:

(a) A transformation balance sheet is drawn up to reflect the realistic market value of operating assets containing the valuation approved by the new owners;

(b) The transformation balance sheet must be audited by a chartered accountant;

(c) A closing balance sheet as of the transformation day is drawn up, supported by an inventory, including the distributed profit in accordance with the valid profit tax law;

(d) The difference between the asset value shown on the closing balance sheet versus that on the transforming balance sheet shall be charged to accumulated retained earnings;

(e) The transforming balance sheet includes the revalued assets and liabilities of the transforming organizations and the amount of owners' equity accepted by the new owners. The owners' equity includes the registered capital, the accumulated retained earnings and the reserve fund. In the course of transformation, the value of the reserve may not be increased.

61. To help in the valuation of enterprises, Decree 30/1989 discusses the establishment of an initial price of shares. To arrive at the initial price, a number of factors have to be considered, such as assets bearing individual value, human factors, including management, organization, trained labour, intellectual property, innovation, research and supplier infrastructure, customer relationships, market share prospects and goodwill. As supplementary information, the new company's value can be determined as the discounted value of the expected earnings.

62. New accounting regulations are under consideration and should be introduced in the new accounting law due in 1992. The strict and detailed state regulations will be replaced by more flexible regulations. The new act will cover the content of the annual financial reports and will not prescribe detailed bookkeeping rules. It will also include disclosure requirements and auditing by independent auditors. The financial reports will be prepared according to international accounting principles. The concept of "regularity" will be replaced by that of "true and fair review". The financial reports will be directly comparable to the financial reports of those found in the member countries of the European Community. The following issues will be addressed by the law:

(a) Use of historical costs for a "going concern" and market values when enterprises go out of business;

(b) Adoption of the lower of cost or market approach to valuation of inventories and marketable securities;

(c) Depreciation techniques must be expanded beyond the traditional straight-line approach;

(d) Bad debt expense must be estimated;

(e) Inflation accounting techniques should be introduced;

(f) Accounting methods for long-term investments.

India

63. The following accounting and reporting standards were adopted during the current period:

(a) A new Accounting Standard on Accounting for the Effects of Changes in Foreign Exchange Rates has been issued by the Institute of Chartered Accountants of India. The Standard supersedes an earlier statement issued by the Institute on the subject;

(b) A Guidance Note on Accounting for Depreciation in Companies has been issued by the Institute. This follows recent amendments to the Indian Companies Act, whereby the rates of depreciation for various types of assets have been prescribed in the Act itself. Earlier, the Act required provision for depreciation to be made on the basis of rates prescribed in the Income Tax Act Rules. The need for change arose because the rates prescribed in the latter Act Rules currently contain a significant element of fiscal incentives in respect of certain types of assets and, therefore, in many cases do not reflect the true commercial depreciation rates;

(c) The Institute of Chartered Accountants of India has decided to make six more accounting standards mandatory. Two of the 11 accounting standards issued by the Institute so far are mandatory in nature and others will be mandatory in respect of accounts for periods beginning on or after 1 April 1991. The mandatory nature of an accounting standard implies that, while discharging their attested function, it will be the duty of the members of the Institute to report in case of any deviation from the standard.

64. The Accounting Standards Board of the Institute of Chartered Accountants of India is currently developing accounting standards on the following subjects:

(a) Accounting for government grants;

(b) Accounting for retirement benefits;

(c) Accounting for business combinations;

(d) Accounting for investments;

(e) Segment reporting.

Iraq

65. Regulation No. 5/1989, on foreign corporate branches and bureaux, was issued cancelling the previous regulation, No. 17/1984. The new regulation stipulates the following:

(a) The branch must maintain its records and accounts in Arabic;

(b) All the branches must be audited by the Board of Supreme Audit (BSA);

(c) The branches must use the Iraqi accounting system that applies to national enterprises;

(d) Every branch must present its annual financial statement, accompanied by the administration report, three months after the ending of the fiscal year.

66. The Board of Accounting Rules and Standards in Iraq was established in 1989. It took up its responsibilities in the same year. The Board is headed by the President of the Board of Supreme Audit; membership includes all members of the Board of Supreme Audit and representatives from the Ministry of Finance, the Ministry of Planning, Baghdad University, Mustansyriah University and the Union of Iraqi Accountants and Auditors. The main objectives of the Board are to discuss and formulate accounting standards.

67. The Board of Accounting Rules and Standards has issued its first standard on reporting and accounting for construction and buildings. This standard consists of definitions and types of construction and building contracts and how to select a proper method of measurement.

Italy

68. On 28 March 1990, Parliament adopted a law by which the Government is enabled to issue legislation incorporating into Italian law the Fourth and Seventh Directives of the Council of the European Communities into Italian law (EEC/78/660 and 83/349).

69. The law introduces the requirement that corporate groups draw up consolidated accounts, in addition to the separate company accounts drawn up by group companies.

70. The provisions implementing the Fourth and Seventh Directives do not apply to credit and financial institutions; these will be subject to Directive 86/635 which specifically concerns them.

71. Parliament has reached an advanced stage in its examination of a bill that would enable the Government to issue legislation implementing Directive 86/635, on the annual accounts and consolidated accounts of credit institutions, and Directive 89/117, regarding the publication of annual accounting documents by the Italian branches of credit institutions having head offices in other countries.

72. Parliament is also examining legislation necessary for supplementing the provisions currently in force concerning public disclosure by companies that issue securities admitted to official stock-exchange listing.

Japan

73. The Business Accounting Deliberation Council, an advisory body to the Minister of Finance, establishes financial accounting standards for business enterprises and auditing standards, which serve as guidelines for the preparation of financial statements and for auditing by a certified public accountant. The members of the Council are professors, certified public accountants, government officials and

representatives of business and industry, all of whom are appointed by the Minister of Finance. In this sense, it could be said that Japanese accounting standards are set in the public sector.

74. In May 1990, the Council issued an opinion on accounting standards concerning futures and option transactions. An outline of the opinion is given below:

(a) The following information should be disclosed in the notes to financial statements in accordance with the type of transaction:

(i) Listed futures transactions:

Unsettled contact value, market value and the balance;

(ii) Listed option transactions:

Balance-sheet value of options, market value and the balance.

This requirement should be applied mutatis mutandis to merchandise futures and option transactions.

(b) Balance-sheet value, market value and the balance in connection with marketable securities should be disclosed in the notes to financial statements in accordance with the kinds of securities.

75. The opinion of the Council also contains, on an interim basis, basic ideas concerning accounting practices in connection with futures transactions developed out of the Council's deliberations. Those ideas are to serve as a reference in future accounting standard-setting.

Jordan

76. International accounting standards and international auditing guidelines govern corporate accounting and reporting in Jordan from the beginning of 1990.

Kenya

77. The following new Kenyan Accounting Standards (KAS) became effective in 1989 or later:

KAS No.	Description	Issue date	Effective date
9	Accounting for the effects of changes in foreign exchange rate	September 1988	1 January 1989
10	Accounting for income tax	September 1988	1 January 1989

KAS No.	Description	Issue date	Effective date
11	Group accounts - accounting for subsidiary companies	September 1988	1 January 1989
12	Group accounts - accounting for associated companies	September 1988	1 January 1989
13	Accounting for goodwill	September 1988	1 January 1989
14	Accounting for investments	September 1988	1 January 1989
15	Related party transactions	September 1989	1 January 1990
16	Revenue recognition	September 1989	1 January 1990
17	Accounting for property, plant and equipment	September 1989	1 January 1990

78. The following questions are currently being considered:

(a) Issuing a KAS on accounting for revaluation items. An exposure draft has been issued to members for their comments;

(b) Review of existing standards, taking into account any inconsistencies with other accounting standards and the problems, if any, faced on their compliance.

Mali

79. The new legislative regulations concerning accounting practices of enterprises come from the new Code of Commerce, the general code of the taxation authorities and circulars of relevant authorities.

The main objectives are:

(a) Establishment of financial statements once a year;

(b) Respect of recording principles according to the 1957 French General Accounting Plan;

(c) Bookkeeping of official journals and inventories;

(d) Preservation for 10 years of every document relating to bookkeeping, and establishment of annual accounts (balance sheet, income statement, profit and loss accounts);

(e) Transmitting annual accounts to the taxation authorities within a period of three months after the end of the exercise.

80. Regarding accounting issues under consideration, under the aegis of the Adjustment Programme of Public Enterprises (APPE), some enterprises have received funds to improve their balance sheets, but no agreement has been reached by the Ministry of Planning and the Ministry of Commerce on how to record these funds.

Mauritius

81. During the period under review, the Mauritius Accounting and Auditing Standards Committee Act (1989) was proposed.

82. The purpose of the Act is to set up the Mauritius Accounting and Auditing Standards Committee with the following objectives:

(a) To formulate and publish accounting and auditing standards and guidelines;

(b) To advise the Minister of Finance on the improvement and harmonization of accounting and auditing standards.

83. The Act provides that, in formulating accounting and auditing standards and guidelines, the Committee may consider standards published by any recognized organization engaged in promoting accounting and auditing standards.

84. The following issues are under consideration:

(a) Valuation and presentation of stocks and work in progress;

(b) Accounting for property, plant and equipment;

(c) Depreciation accounting;

(d) Extraordinary items and prior year adjustments;

(e) Contingencies and post balance-sheet events;

(f) Accounting for investments;

(g) Consolidated financial statements and accounting for investments in subsidiaries, associates and for business combinations;

(h) Treatment of borrowing costs;

(i) Accounting for taxes on income;

(j) Accounting for effects of changes in foreign exchange rates;

(k) Accounting for leases;

(l) Accounting for construction contracts;

(m) Presentation of current assets and liabilities.

Mexico

85. In 1989, amendments to the present accounting regulations stipulated compliance with the Bulletin of the Mexican Institute of Public Accountants, which lays down the rules for submitting the figures needed for financial statements in terms of the purchasing power of the peso at the end of the accounting period. The Mexican Bulletin of Public Accountants established the rules for discounting net worth. The National Securities Commission of the Department of Finance and Public Credit specified what financial information must be provided by issuing agencies whose securities are quoted on the Mexican Stock Exchange.

86. Future projects include:

(a) Updating pension plan accounting;

(b) Investments in joint-venture projects;

(c) Information by business segments;

(d) Inclusion of banks, insurance companies and stock exchanges in the accounting standards of the Mexican Institute of Public Accountants;

(e) Conversion to Mexican pesos of financial statements expressed in foreign currencies.

Morocco

87. On 20 June 1989, the Council of Ministers approved by decree the General Code of Accounting Standards, which applies first to public enterprises and, at a later stage, to all enterprises. The General Code of Accounting Standards consists of two parts: the first part contains the fundamental principles governing the standard-setting exercise in Morocco for accounting, and the second provides a codification of accounts for use by enterprises. The Code also contains provisions for consolidated accounts, cost accounting and accounting terminology.

88. The Council of Ministers also established in the same decree the National Accounting Council, an inter-occupational and inter-ministerial body responsible for setting accounting standards. On 1 November 1989, the Council of Ministers adopted the following texts:

(a) Draft law establishing standards of accounting;

(b) Draft law governing the public accounting profession and establishing a professional association of public accountants;

(c) Decree concerning the national public accounts' diploma.

89. The following texts were published in the Official Gazette, No. 4023, of 6 December 1989:

(a) Decree setting forth the rules governing the accounting practices of public enterprises;

(b) Decree establishing the National Accounting Council.

Myanmar

90. No new legal requirements and/or standards governing corporate accounting and reporting were prescribed in the country during 1989 and 1990. As a matter of fact, no professional body has been given the authority to set corporate accounting or reporting standards.

Pakistan

91. Corporate accounting in Pakistan by companies listed on the Stock Exchange is carried out in accordance with the standards issued by the International Accounting Standards Committee, except for IAS 3, IAS 15 and IAS 22. The disclosure requirements in the accounts are laid down in Companies Ordinance, 1984.

92. The Corporate Law Authority, as the regulatory agency, is considering introducing cost accounting.

Philippines

93. There were no new accounting developments in 1989 and 1990 and no accounting issues are under consideration.

Portugal

94. During 1988 and 1989, the new legal requirements and/or standards governing corporate accounting and reporting (National Chart of Accounts and Accounting Standards) were revised taking into consideration its adaptability to the Fourth Directive of the Council of the European Communities (78/660/CEE) and to the International Accounting Standards. This work has been completed but is awaiting governmental approval, which is expected sometime during the current year.

95. The accounting and reporting issues currently being considered for standard-setting in 1990 include the incorporation of the Seventh Directive of the Council of the European Communities (83/349/CEE) into the Portuguese accounting system.

Republic of Korea

96. The following requirements and/or standards governing corporate accounting and reporting were adopted during 1989 and 1990:

(a) Revision of the Law on External Audit of Corporations;

(i) The right to set auditing standards was recently transferred from the Korean Organization of Certified Public Accountants to the Security and Exchange Commission (SEC);

(ii) The corporations subjected to the Law of External Audit of Corporations should file their financial statements (annual reports) with SEC and when the corporation violates the accounting standards, SEC may restrict the issuance of corporate securities;

(b) The revision of Generally Accepted Accounting Principles in Korea:

(i) Amendments. Method of valuation for marketable securities, foreign currency translations, statement of changes in financial position etc.;

(ii) New articles. Convertible bonds, bonds with warrants, valuation by present value, forward exchange transactions etc.

97. The following accounting and reporting issues are currently being considered for standard-setting:

(a) Auditing standards are currently being considered for general revision;

(b) SEC is considering establishing industry accounting standards (including banks and insurance companies);

(c) SEC will require corporations to disclose audited consolidated financial statements.

Singapore

98. The Institute, as a member body of the International Accounting Standards Committee (IASC) and the International Federation of Accountants (IFAC), has adopted virtually all the International Accounting Standards (IAS) issued by IASC.

99. The Institute's Statements of Accounting Standards (SAS) and Provisional Statements of Accounting Standards (PAS) are largely based on the International Accounting Standards. The following Statement of Accounting Standards, Provisional Statement of Accounting Standards and Recommended Accounting Practice (RAP) were adopted and issued by the Council of the Institute during 1989 and 1990.

Statement of Accounting Standards		IAS equivalent	Effective date
SAS 26	Consolidated Financial Statements and Accounting for Investments in Subsidiaries	IAS 27	1 January 1990

This statement deals with the preparation of consolidated financial statements for a group of enterprises under the control of a parent.

Provisional Statement of Accounting Standards

PAS 14 Accounting for Investments in Associates IAS 28

This statement deals with accounting by an investor for investments in associates. It supersedes IAS 3, Consolidated Financial Statements.

Recommended Accounting Practice

RAP 1 Framework for the preparation and presentation of financial statements

This framework sets out the concepts that underline the preparation and presentation of financial statements for external use.

100. The following accounting and reporting issues are currently being considered:

(a) Accounting for complex capital issue. The statement deals with the accounting treatment on convertible debt securities and debt securities with detachable share warrants;

(b) Financial reporting of interests in joint ventures, ED 35. The statement deals with accounting for interests in joint ventures and the reporting of a joint venture's assets, liabilities, income and expenses regardless of the structures or forms under which the joint venture activities take place.

Spain

101. The following new legal requirements governing corporate accounting and reporting were passed during 1989 and 1990:

(a) Law 19/1989, adapting Spanish legislation to Directives of the Council of the European Communities;

(b) Circular 9/1989, models of annual financial statements and of companies and agencies dealing in securities;

(c) Royal decree 1597/1989, concerning deposits and the publication of annual accounts.

102. The following issues are under consideration:

(a) Accounting standards for consolidation, adjusted to conform with the Seventh Directive;

(b) Sectoral adjustments to the New General Accounting Plan:

(i) Construction sector;

(ii) Electricity sector;

(c) Accounting standards governing mergers of businesses.

Sweden

103. Owing to a change in the Accounting Act, enterprises, as at 1 January 1990, have to report the number of men and women employed.

104. Since the last questionnaire, the following accounting standard of international interest has been implemented:

SASB recommendation No. 8. Legal demands in annual reports and consolidated accounts for other than joint stock companies. The statement is a specification of the legal demands.

105. At present, recommendations concerning goodwill, segment reporting and long-term contracts are under consideration. It is expected that a recommendation on segment reporting will be adopted.

Switzerland

106. During 1989 and 1990, Accounting Standards (ARR/FER) No. 3, on fundamental accounting principles, No. 4, on foreign currency translation and No. 5, on evaluation principles in consolidated statements, have been adopted and published.

107. A takeover code, on a voluntary basis, has been issued binding all companies listed on the Swiss stock exchange (that is, it does not have force of a law, but so far all listed companies have adhered to the rules; for example, Jacob Suchard in the recent takeover by Philip Morris).

108. The Code of Obligation, Company Law section, has again been amended in the draft submitted to Parliament. However, owing to new amendments concerning takeovers and the transfer of registered shares, the final adoption by Parliament has again been postponed.

109. Several rules concerning accounting and reporting for pension funds have been changed (mix of assets etc.)

110. In 1990, the Swiss accounting standard-setting body worked on the following projects, among others:

(a) Classification/format of financial statements (articulation des comptes annuels).

(b) Recommendation on funds flow statements/cash statements;

(c) Recommendation on the equivalence of consolidated financial statements according to ARR/FER with European Economic Community rules.

Turkey

111. The legal requirements and/or standards governing corporate accounting and reporting have been set by the Tax Procedure Law, which was adopted by the Turkish Grand National Assembly on 4 January 1961. There has been no change in that code during 1989 and 1990.

112. Article 175 (Freedom to Choose the Accounting Procedure) of the Commercial Code states that: "On condition they adhere to the aims and principles specified in this chapter, taxpayers shall be free to arrange their books and accounts in any manner and procedure they wish which conforms to the structure of their business. The provisions of the Commercial Code concerning the maintenance of books are reserved."

113. Recently, a working group has been set up to prepare unified accounting principles for all enterprises. The project will be completed by 1991.

United Kingdom of Great Britain and Northern Ireland

Legal requirements

114. The Companies Act 1989 was passed into law at the end of 1989. This Act implements the Seventh and Eighth Directives of the Council of the European Communities on consolidated accounts and the qualifications of auditors, respectively.

115. In addition, the Act requires companies (other than small- and medium-sized companies) to state in their annual accounts whether those accounts have been drawn up in compliance with applicable accounting standards and to give particulars of any material departure and the reasons for it.

116. Further, provision was made for listed companies to send to their shareholders summary financial statements instead of the full accounts.

Accounting standards

Issued in 1989:

SSAP 13 (revised). Accounting for research and development expenditure. Permits capitalization of development expenditure under certain conditions and requires disclosure by large companies of all research and development expenditure charged to the profit and loss account analysed between current expenditure and amortization of past expenditure.

SSAP 22 (revised). Accounting for goodwill. Requires goodwill normally to be written off on acquisition against reserves but permits capitalization and amortization through the profit and loss account. Also, additional disclosure requirements introduced regarding acquisitions made during the year.

Issued in 1990:

SSAP 25. Segmental reporting. Requires large companies to provide segmental information by geographical area and by class of business.

SSAP 4 (revised). The accounting treatment of government grants.

117. Topics on which exposure drafts have been issued and standards are being or will be developed include the following:

ED 46 Related party transactions; proposal that abnormal transactions with related parties be disclosed.

ED 47 Accounting for goodwill; proposal that capitalization and amortization through the profit and loss account be the only permitted treatment.

ED 48 Accounting for acquisitions and mergers; proposal that the conditions for merger accounting (pooling of interests) be more narrowly defined than hitherto and that merger accounting be required when the conditions are met instead of merely permitted as at present.

ED 49 Reflecting the substance of transactions in assets and liabilities; proposals to bring on to the balance sheet items which have defined characteristics.

ED 50 Consolidated accounts; proposals to complement the statutory changes in the Companies Act 1989 and to interpret "dominant influence" and "unified management" in the context of the definition of subsidiary undertakings.

ED 51 Accounting for fixed assets and revaluations; proposals to require revalued assets to have valuations kept up to date and for the treatment of write-downs and profits or losses on disposal.

ED 52 Accounting for intangible fixed assets; proposals that brands and similar assets be treated in the same manner as goodwill.

ED 53 Fair value in the context of acquisition accounting; proposals covering the valuation of assets and the creation of provisions when first accounting for a subsidiary undertaking.

ED 54 Cash flow statements; proposal to replace the current source and application of funds statement with a cash flow statement.

ED 55 Accounting for investments; proposal that readily marketable investments held as current assets be valued at market value with gains and losses being taken to the profit and loss account.

Zaire

118. New legal requirements and standards enacted during 1989 and 1990 include the following:

Edict No. 89-037 of 17 August 1989, instituting the possibility of deducting professional losses on previous profits (maximum period is five years), as well as unlimited deferral of depreciation;

Edict No. 89-038/039 of 17 August 1989, instituting tax rates for small- and medium-sized enterprises;

Edict No. 008/CAB/FIN/90 of 12 February 1990, establishing the coefficients for revaluation for balance sheets ending on 31 December 1989.

119. The following accounting and reporting issues are currently being considered for standard-setting:

(a) Agricultural accounting;

(b) Recording of operations in foreign currency;

(c) Recording of intangible assets;

(d) Organization of the accounting profession;

(e) Banking, insurance and public sector accounting.

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Intergovernmental Working Group of Experts
on International Standards of Accounting
and Reporting
Ninth session
5-15 March 1991
Item 3 (a) of the provisional agenda*

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT THE GLOBAL AND NATIONAL LEVELS IN THE FIELD OF ACCOUNTING AND REPORTING BY TRANSNATIONAL CORPORATIONS

Review of important current developments at the national level in the field of accounting and reporting by transnational corporations

Report of the Secretary-General

Addendum

SUMMARY

This report contains four additional country replies on current accounting developments. They were received too late to be included in the main body of the report.

* E/C.10/AC.3/1991/1.

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China

1. The Law on Chinese Foreign Joint Ventures, adopted on 1 July 1979 by the Fifth National People's Congress at its second session, has been amended in accordance with the decision taken on 4 April 1990 by the Seventh National People's Congress at its third session. The Decision on Revising the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment contained the following amendments:

(a) A new paragraph 3 was added to article 3 as follows: "The State shall not nationalize or requisition any joint venture. Under special circumstances, when public interest requires, joint ventures may be requisitioned in accordance with legal procedures and appropriate compensation shall be made";

(b) Article 3 was revised to read: "All parties of a joint venture shall submit their agreements and contracts and articles of association to the state department concerned with foreign economic relations and trade (hereinafter referred to as examining and approving authorities). The examining and approving authorities shall decide within three months whether to approve or disapprove the joint venture. Once approved, the joint venture shall register with the concerned department of the General Administration for Industry and Commerce and open business after receiving its business license";

(c) Paragraph 1 of article 6 was revised to read: "A joint venture shall have a board of directors, the size and composition of which shall be stipulated in the contract and articles of association after consultation between the parties to the venture; the directors shall be appointed and replaced by the relevant parties. The chairman and vice-chairman or vice-chairmen shall be chosen through consultation by the parties to the venture or elected by the board of directors. If the Chinese side or the foreign side assumes the office of the chairman, the other side shall assume the office(s) of the vice-chairman or vice-chairmen. The board of directors shall decide on important issues concerning the joint venture on the principle of equality and mutual benefit";

(d) Paragraph 2 of article 7 was revised to read: "A joint venture may, in accordance with the provisions of the relevant laws and administrative rules and regulations of the State on taxation, enjoy preferential treatment for reduction of, or exemption from, taxes";

(e) Paragraph 1 of article 8 was revised to read: "A joint venture shall, on the strength of its business license, open a foreign exchange account with a bank or any other financial institution that is permitted by the state agency for foreign-exchange control to handle foreign-exchange transactions";

(f) Paragraph 1 of article 10 was revised to read: "The net profit that a foreign participant receives as his share after executing his obligations under the pertinent laws, agreements and contracts, the funds he receives at the time the joint venture terminates or winds up its operation, and his other funds may be remitted abroad in accordance with the foreign-exchange regulations and in the currency or currencies specified in the contracts concerning the joint venture";

(g) Article 11 was revised to read: "The wages and other legal income of the foreign employees of a joint venture shall be taxed according to the Law on Personal Income Tax of the People's Republic of China before they are remitted abroad according to state regulations on foreign exchanges";

(h) Article 12 was revised to read: "Based on various lines of business and circumstances, the issue of operation periods of joint ventures may be handled differently. Joint ventures engaged in a certain line of business shall specify in their contracts their operation periods, while joint ventures engaged in another line of business may choose whether or not to specify their operation periods. In the case of a joint venture with its operation period specified, if the parties to the venture agree to extend the operation period, the venture may file an application to the examining and approving authorities six months before the expiration of the operation period. The examining and approving authorities shall, within one month of receipt of the application, decide whether to approve or disapprove it";

(i) Article 13 was revised to read: "If there occur heavy losses, failure of a party to perform its obligations under the contract and the articles of association or force majeure etc., the joint venture may terminate the contract through consultation and agreement by the parties and subject to approval by the examining and approving authorities and to registration with the concerned department of the General Administration for Industry and Commerce. In cases of losses caused by a breach of contract, the financial responsibility shall be borne by the party that has breached the contract."

France

2. During 1989 and 1990, the National Accounting Council has issued standards on the following issues:

(a) Accounting treatment of remissions accorded a debtor by creditors in the context of settling company difficulties and undisclosed payables and receivables;

(b) Accounting principles applicable to pooling of receivables;

(c) Accounting treatment of the supplementary company tax levied on distributions;

(d) Accounting treatment of goodwill.

3. The National Accounting Council has also produced technical commentaries on the partial implementation of the system known as the "cross-linked system". This accounting system enables the performance of enterprises to be improved by making available to them information that is up to date, pertinent and accurate. Enterprises wishing to do so may, in accordance with current accounting principles, make partial use of this system.

4. The National Accounting Council will continue its work on the cross-linked system and will research the extent to which more comprehensive implementation of the system would be possible with the further development of French accounting

standards. A new accounting plan for banks will be established in accordance with the European directive relating to financial statements and consolidated financial statements of credit institutions. New provisions will apply to the consolidation of insurance and investment enterprises. Accounting standards will be formulated for new financial instruments and intangible assets.

Nigeria

Accounting standards adopted in 1989 and 1990

5. The Nigerian Accounting Standards Board published the following accounting standards:

(a) Statement of Accounting Standard No. 8 (SAS 8). Accounting for Employees' Retirement Benefits, with effect from 1 January 1991;

(b) Statement of Accounting Standard No. 10 (SAS 10). Accounting by Banks and Non-Bank Financial Institutions (part I), with effect on financial statements covering periods ending on or after 31 December 1990.

Legal requirements governing corporate accounting and reporting in Nigeria

6. A new decree (law) entitled "Companies and Allied Matters Decree No. 1 of 1990" has been promulgated by the Federal Military Government of Nigeria with an amendment entitled "Decree No. 32 of 1990. 'Companies and Allied Matters (Amendment) Decree 1990'".

7. This decree took effect as at 31 December 1990.

Union of Soviet Socialist Republics

New legal requirements

8. New legal requirements governing accounting and reporting were issued in the USSR during 1989 and 1990 in the following areas:

(a) Procedures for the preparation of annual financial statements of joint ventures established in the territory of the USSR with the participation of Soviet and foreign organizations, companies and management organs were issued by the Ministry of Finance and the State Statistical Committee of the USSR on 8 August 1989. These regulations prescribe the format for the balance sheet, the profit-and-loss statement and the notes to the financial statements. They set forth the procedures for preparing the financial statements and presenting therein all components of the assets of joint ventures;

(b) Regulations concerning recording in the financial statements and reports of economic operations involving the leasing of property were issued by the Ministry of Finance and the State Statistical Committee of the USSR on 11 April 1990. On the basis of the new Soviet legislation governing leases, these regulations set forth the procedures for recording operations involving the leasing

of specific types of property (fixed assets both productive and non-productive, as well as the leasing of enterprises and structural units);

(c) Procedures for financial statements on specific financial and economic transactions at joint ventures and international organizations established in the territory of the USSR were issued by the Ministry of Finance of the USSR on 6 June 1990. These regulations introduce fundamental changes in accounting methods in respect of fixed assets, deductions for depreciation of such assets, capital investments, leasing of property, sales, foreign-currency transactions, and exchange-rate fluctuations. They set forth for the first time accounting procedures for financial investments, depreciation of intangible assets, and reserve funds for bad debts;

(d) The format and procedures for the submission of annual financial statements of co-operatives, corporate lessors and small companies were issued by the Ministry of Finance and the State Statistical Committee of the USSR on 11 June 1990. These regulations prescribe the format for the balance sheet and the notes. They set forth the procedures for preparing the financial statements and presenting therein all components of the assets of co-operatives, corporate lessors and small companies;

(e) The regulations concerning accounting for securities in financial statements were issued by the Ministry of Finance of the USSR on 31 July 1990. These regulations set forth the accounting procedures for state enterprises and co-operatives in respect of the shares of enterprises and labour collectives, and in respect of bonds, savings certificates and bills of exchange. They establish the methods for the evaluation of securities in the balance sheet;

(f) The regulations for financial reporting by joint-stock companies and limited-liability companies were issued by the Ministry of Finance of the USSR on 31 July 1990. These regulations lay down the general principles of corporate accounting. They set forth the special procedures for recording transactions relating to the establishment of the capital fund, the sale of shares and bonds, the payment of dividends, the movement of fixed assets, deductions for the depreciation of such assets, deductions for the depreciation of intangible assets, and the management of long-term and other financial investments.

9. In the USSR, consideration is currently being given to a whole range of issues relating to the development of accounting and reporting regulations geared to market-economy conditions. In this connection, a review of the following basic norms governing the organization and preparation of financial statements and reports is scheduled for 1990 and 1991, including:

(a) Regulations for financial reports and balance sheets and regulations for senior accountants to be issued by the Council of Ministers of the USSR;

(b) Chart of accounts to be issued by the Ministry of Finance of the USSR;

(c) Basic guidelines for the planning and recording of production expenditure, in accordance with the new Soviet legislation on the taxation of enterprises.

10. At present, the standards governing accounting for and by joint ventures are, for the most part, based on the concepts and principles developed for state enterprises. These standards are set forth in the Instructions of the Ministry of Finance and the State Statistical Committee of the USSR of 27 February 1987, 3 May 1988, 8 May 1988, 8 August 1989 and 6 June 1990. They prescribe the format for financial statements and the balance sheet and set forth specific accounting rules for fixed assets, capital investments, financial investments and foreign-currency transactions. They determine at what point output is to be considered sold, and when profits are to be declared and reserve funds established for bad debts. They specify how often and to which organs reports are to be submitted.

11. It is expected that special standardized procedures for accounting and reporting for and by joint ventures will be introduced in 1991. Work in this area is proceeding in earnest, with the participation of some members of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting appointed by the United Nations Centre on Transnational Corporations.

12. The question of accounting for intangibles is currently under consideration. It is expected that special regulations in that area will be issued in due course. For the time being, the situation is as discussed in the following paragraphs.

13. As to computer software, state enterprises include in their financial statements software that is valued on the basis of the actual expenditure incurred in acquiring it. Deductions for amortization are applied, according to the rules established by the Soviet Government for the amortization of computer software or over the normal period of useful life of the software. The costs of acquiring licenses, patents and other intangibles are written off, as they are incurred, against special funds for the development of production, science and technology.

14. Joint ventures include intangibles in their financial statements, unless their charter documents provide otherwise. The amortization charge for intangibles is fixed on the basis of the procedures set forth in the charter documents.

15. Joint-stock companies and limited-liability companies include in their financial statements such intangibles as the right to use land, water and other natural resources, and other property rights (including the right to intellectual property). The amortization charge for intangibles is fixed according to rates calculated by the companies on the basis of initial cost and duration of useful life (not exceeding the duration of the company's activities). Where it is impossible to determine the duration of the useful life of intangibles, the amortization rates are calculated on the basis of a useful life of 10 years (but not longer than the duration of the company's activities). A further amortization charge is added to production costs (overheads) in a simultaneous writing off of the initial cost of intangibles.

16. The organization of the accounting profession is currently governed by the regulations for senior accountants ratified by a resolution of the Council of Ministers of the USSR on 24 January 1980. The qualifications required for the

accounting profession were established by the State Committee on Labour and Social Questions of the USSR in 1986. Specifically, senior accountants must have completed university education in economics and have worked in leadership positions in the financial and accounting field for no less than five years. There are three classes of accountants: class 1 accountants must have completed university education in economics and have worked as a class 2 accountant for no less than three years; class 2 accountants must either have completed university education in economics without fulfilling the work-experience requirement or have completed special secondary education and have worked as an accountant for no less than three years; class 3 accountants must either have completed special secondary education without fulfilling the work-experience requirement or have received special training through an established course and have worked in accounting and financial control for no less than three years. There are also three classes for economists working in accounting and analysis of economic activity.

17. No special qualifications are currently required for auditors, this being a new profession. Since 1986, however, qualifications have been required for the profession of certified public accountants, for which there are three classes, admission to each class being subject to educational work-experience requirements. For example, class 1 certified public accountants (the highest class) must have completed a university education in economics and have worked as class 2 certified public accountants for no less than three years. Proposals are being discussed for the reorganization of the accounting profession and they will be submitted in due course.

18. In the transition period of the privatization of state enterprises, accounting and reporting rules are subject to the following requirements:

(a) If state enterprises are being put up for lease, the rules established by the Ministry of Finance and the State Statistical Committee of the USSR on 11 April 1990 and 11 June 1990 apply;

(b) If state enterprises are being transformed into joint-stock companies or limited-liability companies, the rules established by the Ministry of Finance on 31 July 1990 apply;

(c) If state enterprises are being bought up by co-operatives, the rules established by the Ministry of Finance on 14 December 1988 and the accounting rules established by the Ministry of Finance and the State Statistical Committee on 11 June 1990 apply;

(d) If state enterprises are being transformed into small businesses, the rules established by the Ministry of Finance and the State Statistical Committee on 11 June 1990 apply.

19. At the end of the transition period of the privatization of State enterprises, the intention is to introduce unified accounting and reporting rules, which are appropriate for a market economy.